

NATIONALISATION OF INDUSTRIES IN BANGLADESH

POLITICAL AND ADMINISTRATIVE PERSPECTIVES

by

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DECLARATION

I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any University; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text.

(Muhammad Fazlul Hassan Yusuf)

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ABSTRACT

The pattern of nationalisation and free enterprise in Bangladesh has been primarily shaped by the environmental conditions in the country. The poor industrial structure, slow economic growth, existence of a sizeable public sector, chaotic political and economic condition, presence of a strong, radical and militant student and labour front, sentiments generally against capitalist owners of the means of production were factors leading to the decision of nationalisation in 1972. This decision generated expectations in the people of Bangladesh for building up a society free from poverty and exploitation. Within a short time this optimism gave way to a sense of disillusionment and disappointment. Nationalisation gradually lost its force and sharpness particularly since the military took over government in 1975. The practice of nationalisation did not match its precepts during the Awami League Administration and the leanings of the military rulers towards free enterprise became evident despite reticence about their social policy. In this situation nationalisation programmes were based on expediency rather than principle, resulting in a lack of clear perception of goal and structure with respect to their legal, administrative and operational aspects which vitiated their performance. Inconsistencies were also discernible in respect of ideological or pragmatic justification used for the genesis, organisation and operation of the nationalised undertakings. In the developing circumstances of the Third World countries it is especially difficult to demarcate the boundaries of ideology and empiricism particularly when political and economic grounds for nationalisation are interrelated.

Studies in nationalisation focus on both ideology and expediency as factors in it. In instances where this is not clearly differentiated, it leads to a dichotomous situation. This dichotomy has been found to

exist in different forms. The developing countries provide the best known examples, although others are available in developed western nations as well. The British model has symbolised this dichotomy as a central feature and much of the structural framework of the model depends on resolution of this dichotomy.

This study selects the experiences of nationalisation in Bangladesh, one of the world's poorest countries, as the base of its empirical research. The findings tend to show that nationalisation involves experiences of diverse kind. Ideology and pragmatism often overlap in respect of formulation and implementation of a nationalisation programme and both grounds are individually or jointly applicable to specific situations.

Nationalisation as implemented in Bangladesh has become a support to fragile private enterprise, even at the cost of the nationalised industries themselves. The role of nationalisation can, however, be perceived not as a weapon in the ideological armoury, but more as an empirical need of the economy. While its success or failure depends on a variety of factors, a moot question is the political willingness to use it for a clearly defined purpose.

ABBREVIATIONS

ADP	Annual Development Programme
ASRC	Administrative and Services Reorganisation Committee
BCIC	Bangladesh Chemical Industries Corporation
BCSC	Bangladesh Consumers Supplies Corporation
BFIDC	Bangladesh Forest Industries Development Corporation
BIDC	Bangladesh Industrial Development Corporation
BJEC	Bangladesh Jute Exports Corporation
BJIC	Bangladesh Jute Industries Corporation later BJMC
BJMC	Bangladesh Jute Mills Corporation
BMEDC	Bangladesh Minerals Exploration and Development Corporation
BNP	Bangladesh Nationalist Party
BPC	Bangladesh Petroleum Corporation
BSB	Bangladesh Shilpa Bank
BSEC	Bangladesh Steel Engineering Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BSRS	Bangladesh Shilpa Rin Sangstha
BTMC	Bangladesh Textile Mills Corporation
CSP	Civil Service of Pakistan
EPIDC	East Pakistan Industrial Development Corporation formerly PIDC and later BIDC
FFYP	The First Five Year Plan of Bangladesh 1973-78
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IMS	Industrial Management Service
IWWC	Industrial Workers' Wages Commission
IWWPC	Industrial Workers Wages and Productivity Commission
NPC	National Pay Commission
PB	Petrobangla, formerly Bangladesh Minerals, Oil and Gas Corporation

PIDC	Pakistan Industrial Development Corporation
PSC	Pay and Services Commission
SFYP	The Second Five Year Plan of Bangladesh 1980-85
TCB	Trading Corporation of Bangladesh
TYP	The Two Year Plan of Bangladesh 1978-80

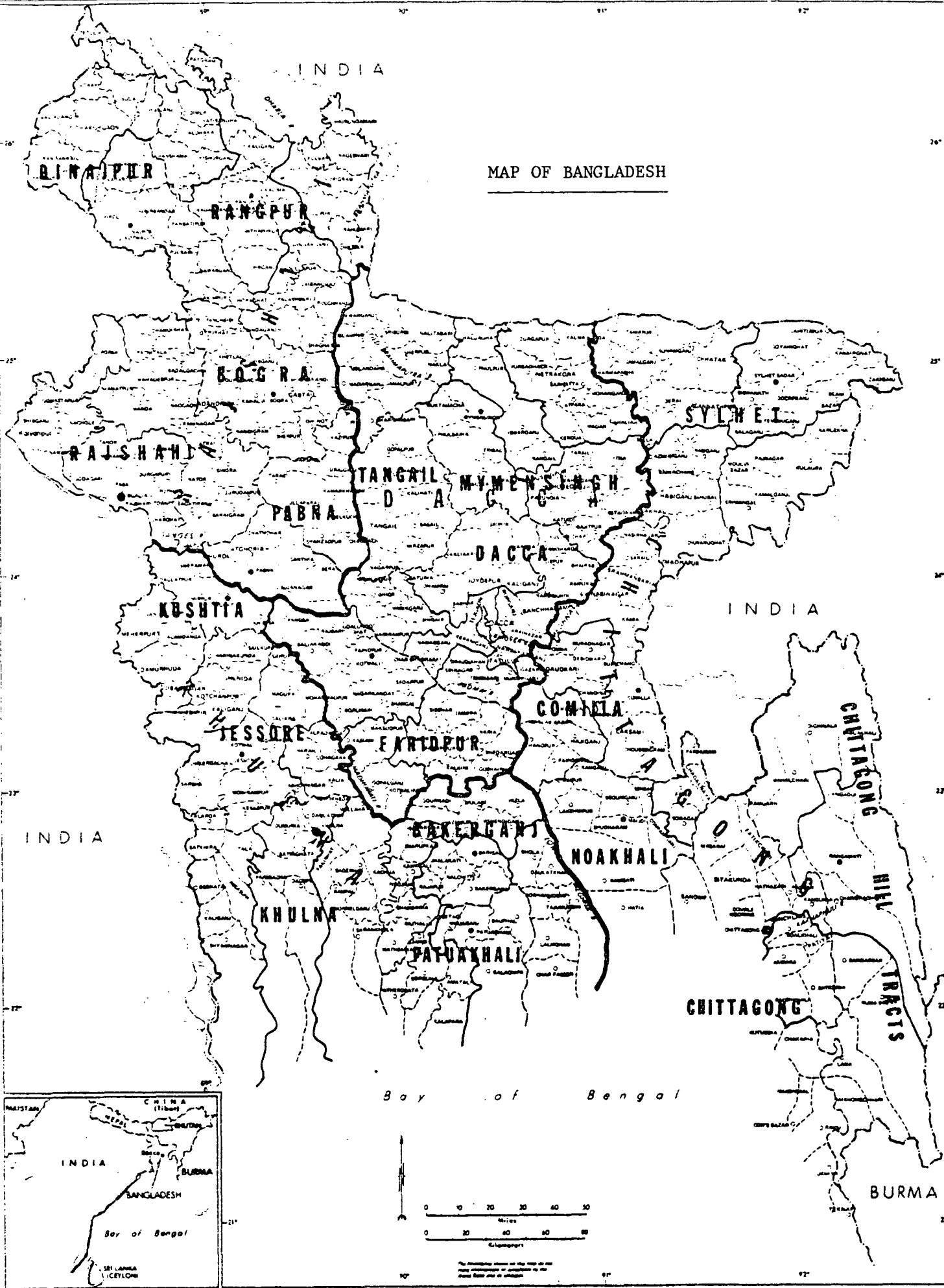
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INTRODUCTION

Bangladesh is among the most recent of the Third World countries which have undertaken a policy of nationalisation in some sectors of its economy. Although a sizeable public sector existed at the time of its emergence as an independent State on December 16, 1971¹, nationalisation as a matter of governmental policy had no precedent in this land². However, within only seventy five days of its inception, a decision was taken to nationalise her banking system, insurance companies and the majority of large scale industries. This was explained in part as a fulfilment of the election promises³ of the Awami League⁴ party which spearheaded the Liberation⁵ movement and partly as a means to establish a socialist economic system⁶. Socialism was declared as one

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- 1 Bangladesh emerged as an independent State fighting a bloody war of Liberation. The region constituting Bangladesh was the eastern part of the Bengal province until the Indian subcontinent was partitioned in 1947 to form two new independent States- India and Pakistan. The eastern part of the Bengal province joined with the western provinces of undivided India, later known as West Pakistan, to set up the State of Pakistan. The two regions of Pakistan were geographically separated by over one thousand miles. The former came to be known as East Bengal, later East Pakistan. The grounds of the termination of the union between the two parts of Pakistan are indicated in the Chapter II below. In this study the term Bangladesh is used to refer to the independent State of Bangladesh since 1971 and also the geographical and political unit known before as East Bengal/East Pakistan.
 - 2 A demand for nationalisation of jute trade was voiced in 1954. See the *Dawn* (Karachi daily), 4 April 1954. There were demands for "nationalization of banks, insurance companies and all big industries" in 1969. See Tushar Kanti Barua, *Political Elite in Bangladesh* (Bern: Peter Lang, 1978), p. 334.
 - 3 See "Awami League Manifesto" reprinted in Government of India, *Bangladesh Documents*, Vol. I (New Delhi: Ministry of External Affairs, Publications Division, 1971), pp. 67-79.
 - 4 See Chapters II and III below.
 - 5 In Bangladesh both the terms "independence" and "liberation" are used to indicate the dissociation of the former eastern province from the main body of Pakistan and its emergence as an independent state.
 - 6 The avowed goal was to realise "through the democratic process a socialist society". *Awami League Manifesto*, *op. cit.*

of the four pillars⁷ of the new State. State ownership through the creation of a "nationalised public sector embracing the key sectors of the economy" and a "planned economic growth" were envisaged⁸.

The new Awami League Government attached importance to formulation of economic policies and planning. It was realised that all agencies of the State had to be activated and reoriented to work, keeping in view the declared socialist objectives. A Planning Commission⁹ as a central planning agency was set up to design perspectives, long term as well as short term economic development programmes and also devise economic policies. The First Five Year Plan 1973-78¹⁰ (hereafter FFYP) was prepared within a year and a half of Liberation. The fundamental principles of State policy as set forth in the Constitution, the primary objectives of the State as outlined in the FFYP and political guidance and directives were the source-base of formulation and implementation of government policies. A set of new policies were adopted in the fields of agriculture, industry, finance, trade and commerce and public administration. Some of the new policies were in sharp contrast to the policies pursued in the immediate past. By the very nature of things, the new policies had to cater to the requirements

7 Other "pillars" or the fundamental principles of State policy were nationalism, democracy and secularism. Government of Bangladesh, Parliament Secretariat, *The Constitution of the People's Republic of Bangladesh*, (Dacca: Government Press, 1975), Article 8(1).

8 *Ibid.*, Articles 13(a) and 15.

9 Before Liberation, there was only a small planning department at the provincial level. After Liberation, the high powered Planning Commission was set up with an elaborate machinery. See A.M.A. Rahim, "An Analysis of Planning Strategy", *Asian Survey*, Vol. 15 (May, 1975), pp. 383-393; see Nurul Islam, *Development Planning in Bangladesh*, (London: C. Hurst & Company, 1977).

10 Government of Bangladesh, Planning Commission, *The First Five Year Plan 1973-78* (Dacca: Government Press, 1973).

of the changed circumstances and to meet the aspirations of the people in the wake of Liberation. It also underpinned the need for devising institutional framework which would be equal to the tasks in the changed context. Within the framework of the FFYP, Annual Development Programmes were prepared and implemented. Periodic reviews and changes of the fiscal and monetary policies as well as of the export and import policies were undertaken. Basic principles of labour policy, industrial workers' wages policy and policies regarding pay scales embracing all categories of government and public sector employees including those of the nationalised enterprises were laid down by the government. A policy of reorganisation of the administrative structure, both at the national level and below was adopted so that the system could respond to the new ideologies of the State.

The Constitution envisaged a radical transformation in the rural areas through promotion of an agricultural revolution¹¹. The FFYP pointed out that socialism would be inconceivable without socialisation of agriculture¹². The declared goal of the industrial policy in 1973 was

one of consolidation of nationalisation, of establishment of new institutions and of development of a socialist consciousness among the management and workers.¹³

The government held the view that the assumption of responsibility of the bulk of the industrial sector by the State 'should be effected within a total perspective'¹⁴.

11 *Constitution, op. cit.*, Article 16.

12 *FFYP, op. cit.*, p. 2.

13 Government of Bangladesh, Ministry of Industries, "Industrial Investment Policy 1972-73", *The Bangladesh Gazette Extraordinary*, (12 January 1973).

14 *Ibid.*

The scenario changed sharply when the military seized the State power from the Awami League in August 1975¹⁵. The Constitution was modified by a military decree and the "socialist pretensions" were discarded. Secularism as one of the fundamental principles of the State Policy was abandoned. The industrial policy was revised with a view to encouraging the dormant private investment. As a result compensation provisions were liberalised, generous incentive packages were introduced for the private sector, scope of private industrial investment was expanded and sales to private investors of smaller enterprises abandoned earlier by non-locals and taken over by the government were expedited. In addition, the fiscal apparatus of the government was exploited with the same object in view. Simultaneously a campaign was mounted by the private sector lobby to discredit the nationalised industries so that a majority of them could ultimately be reverted to private ownership. It was urged that

nationalisation had caused enormous losses and damage in most spheres of our economy...On the whole nationalised sector is performing dismally...Losses are piling up to the detriments of the economy... Denationalisation will help capital formation...The only way to restore ...(entrepreneurs') confidence is by positive steps such as denationalisation.¹⁶

The Military Government officially maintained a vague stance on nationalisation although its leaning towards private sector as came to manifest in its policies and their implications, was indubitable. While the idealism of a socialist economy yielded to the course of "mixed

15 See Stephen Oren, "After the Bangladesh Coups", *The World Today*, Vol. 32 (January, 1976) pp. 18-24; also Alan Lindquist, "Military and Development in Bangladesh", *I.D.S. Bulletin*, Vol. 2, (July 1977) pp. 10-18.

16 See *The Holiday*, (Dacca English Weekly), (1 May 1977) for the statement of the chairman of the Bangladesh Jute Mills Entrepreneur's Society, an association of the previous owners of the nationalised mills.

economy"¹⁷ simultaneously it was maintained that the policy implications of the Two Year Plan 1978-80 (hereafter TYP) launched by the Military Government was a temporary affair, largely independent of major political issues¹⁸ and that it was not possible to formulate a long term planning in the absence of national consensus emanating from a political process¹⁹. The planners during the military regime, therefore left the important issue of resolving the operational jurisdictions of public and private sector²⁰ to be decided upon in the Second Five Year Plan 1980-85 (hereafter SFYP) scheduled to be operative from 1980 when it was expected that a political process based on national election would emerge. Yet in the interim the economic policies pursued by the Military Government were geared to a reduction of public sector and enlargement of private sector²¹. With fifty three of the nationalised enterprises privatised before the end of the implementation period of the FFYP i.e., June 30, 1978 and fifty seven enterprises during the next two years following, the Military Government, in effect was drastically changing the nationalisation programme of 1972 initiated by the Awami League Government and on the eve of the former's putting the SFYP of Bangladesh in operation.

The study concerns itself with the Bangladesh experience in nationalisation of industries. The focus is primarily on the period covered by the First Five Year Plan of Bangladesh from July 1, 1973 to June 30, 1978. The period surveyed passed through an intense uncertainty and fluidity. The country was gasping from the traumatic experience

17 The TYP document declared that as the features of mixed economy, public sector and private sector "will co-exist complementing each other". Government of Bangladesh, Planning Commission, *The Two Year Plan 1978-80* (Dacca: Government Press, 1978), p. 155.

18 *Ibid.* p. 291.

19 *Ibid.*

20 *Ibid.*

21 *Infra.*, Chapter III, fn. 145.

of a recent political and economic upheaval²². During this short period, governments changed or toppled, constitutional emphases altered, national ideology wavered and democracy was tampered and finally supplanted by a military dictatorship. The economy, one of the most resource starved in the world and seemingly always at the edge of the precipice of economic disaster, further floundered. Even after the end of the FFYP and at the threshold of a twenty year perspective plan, controversies raged between socialists and nonsocialists and among various splinter groups of the socialists, between secularists and ^{li}regionists, between Bangladeshi and Bengali nationalism, between the protagonists of the public sector and the lobbyists of the free enterprise, and finally, about the relative merits and demerits of nationalisation, denationalisation and disinvestment²³.

Under the above circumstances, it is not surprising that from the very beginning; the process of nationalisation lacked perspective and vision. There appeared to be no consistency of purpose. The sense of direction was frequently blurred. No enduring success was possible without a clear perception of a national purpose of nationalisation and of the role the nationalised sector was to perform at the macro and micro levels. The nationalised sector and in particular the nationalised industries demonstrated signs of drift and became subjects of circumstances. Much of it could be ascribed to the inability of the ruling elite to perceive the real purpose of nationalisation in the context of

22 Damages to the economy as a consequence of the Liberation War amounted to U.S. \$1200 million as estimated by the United Nations Relief Operation in Bangladesh. This amount was nearly equivalent to 20 per cent of the GDP of Bangladesh in 1972-73. See *TYP, op. cit.*, p. 1; Government of Bangladesh, Ministry of Finance, *Bangladesh Economic Survey 1979-80* (Dacca: Government Press, June 1980), p. 241.

23 See *The New Nation*, (Dacca Weekly) 30 March 1980. As late as in March, 1978 the Planning Commission referred to the unresolved issues regarding the public-private sector relationship and highlighted the need of a political decision. See *TYP, op. cit.* p. 23.

Bangladesh and the part the public and private sectors were to play. However, the ambivalence of the ruling elite about the purpose and objective of nationalisation may possibly be traced to the social forces within the polity and the group character of the ruling elite and group interests it tried to promote and perpetuate. The origins of nationalisation, the circumstances governing the emergence of the nationalised sector, its contribution to the economy, the operational performance and organisational and administrative capability were conditioned through the interactions of social, political, economic and administrative factors.

The study surveys the nationalisation of the manufacturing industries in Bangladesh. The service oriented industries like electricity generation and transport are not included although gas, petroleum refining and marketing and mineral exploration and development are. The basis of inclusion is that all industries considered come one way or other under the purview of the omnibus nationalisation law of Bangladesh known as the Bangladesh Industrial Enterprises (Nationalisation) Order, 1972 or more commonly known in Bangladesh as "P.O.27"²⁴. Except natural gas, minerals exploration and development and petroleum processing and marketing, the activities of the nationalised industries consisted in manufacturing. This renders greater importance to nationalisation of industries as it is in the manufacturing that private enterprises had been dominant during the period immediately before the emergence of Bangladesh as an independent state.

24 Government of Bangladesh, Ministry of Law and Parliament Affairs, *President's Order No. 27 The Bangladesh Industrial Enterprises (Nationalisation) Order, 1972*. (Dacca, Government Press, 1977); see for the original version in *The Bangladesh Gazette Extraordinary*, 26 March 1972.

The study seeks to identify the major problems and issues connected with the nationalisation and especially the politics and administration of the nationalised industries of Bangladesh. Administration is meant to include both organisation and management and organisation is viewed as the structure of hierarchy of tasks which are formally or legally set up. Management is defined as the processes by which the work is accomplished including planning, staffing, financing and controlling various activities. The study proceeds from the facts that concern the status and role of the two different regimes - one that owed its origin to a democratic process and the other, a military power group which ousted the elected government. The issues are examined in the context of the political, economic, social and administrative environments in Bangladesh. The historical factors that gave rise to nationalisation are examined. Analysis is presented in the light of the two regimes' plans, programmes and dispositions and in turn, on the basis of how closely nationalisation policy of the successive regimes conformed to the avowed socialist objectives mentioned in the Constitution and other documents. In a word, implementation of nationalisation during 1972-78 is compared with what the government had set out to do initially what seemed necessary and desirable according to the perceived national objectives and what resulted from all this in the end. Our purpose is not primarily to delve into positive and negative aspects of nationalisation or public ownership but to compare nationalisation as it has evolved in Bangladesh, differentiating the role of the public and private sectors of the economy and appreciating the problems facing the nationalised industries.

The approach used in this study may be described as a blending of an historical-empirical approach with a traditional or institutional analysis within a functional-analytic context. An historical analytic approach has been adopted because no economic or political system including the components of it (such as an industrial structure) can be studied meaningfully apart from the associated social structure. Consequently, policy of political, administrative or economic strain must be related to the historical experience in a society. Such an approach is particularly relevant to a study of former colonial economies whose society is in the quagmire of a dual evolution and has been subject to influence and interaction of exogeneous cultures.

The main sources for this study are official documents such as economic and development plans, annual national budgets, industrial policy statements, annual reports of the public corporations and their enterprises, reports of various local and international organisations, official investigations and inquiries, parliamentary debates and proceedings, various statutes and government and private publications. Newspapers have provided valuable factual information on events and political trends. A field study in Bangladesh gave access to some internal management documents and original data from the corporations and the enterprises. Interviews and discussions with the top management in the nationalised industries including the members of the Presidential cabinet, chairmen and directors of the boards of the public corporations and officials in the ministries as well as academicians, research workers, journalists, politicians and representatives of chambers of commerce and industries gave some insight to the

problems and issues concerning the study. An analysis of the questionnaire presented to the management of the nationalised industries helped a balanced assessment of various propositions in the study. The personal background of the author being a civil servant with earlier access and experience with some official documents could not have failed to enrich his ideas. The plan documents, annual economic surveys, government budget documents, national and international reports, annual reports of the corporations and the enterprises, statistical digests and surveys published by the government and finally, the author's own investigations in the offices of the nationalised industries have supplied most of the statistical information.

Among the secondary sources, selected literature on political economy, public administration, international law and in particular books and scholarly articles on public sector, public enterprises and nationalisation have been profitably used.

Among the operational difficulties in research first is a dearth of published materials even in the form of public documents. Empirical research is hampered due to paucity of statistical data. But in Bangladesh one faces not only the problem of availability of statistical data but also their frequent unreliability, contradictions and inconsistencies. At times they appear irreconcilable. Published figures vary not only between agencies but also by the same agency at different points of time without an ostensible explanation. Although all the public corporations have public relations departments they seldom publish for general information. The data on operational performances are closely guarded. Even public documents such as the reports of the Public Service Commissions are classified for "official use only".

The most sloven and archaic studies are kept shrouded with secrecy in the name of high security.

For most of the period under study Bangladesh was under a military dictatorship and parliamentary democracy remained suspended. As a result, parliamentary control and accountability did not have a real impact on the operations of the nationalised sector. Parliamentary proceedings for the period that the parliament functioned do not contain a strong evidence of a deep concern by the people's representatives about the nationalised industries. Parliamentary organs like Select Committee on nationalised industries in U.K. or in India never functioned. On the other hand only a few academic attempts have been made to study the experiences with nationalisation in Bangladesh.

The first three chapters of the study endeavour to set the scene of operation of the nationalised industries in Bangladesh - the genesis, background and environment. The next three chapters attempt to describe, examine and analyse the actual operation of nationalisation in Bangladesh industries. The first chapter attempts to present a theoretical overview of nationalisation and then concerns itself with its individual aspects and their relationship to the political economy. An early attempt is made to establish the orientation of the field of study in relation to political economy in general and public administration in particular in so far as the same will have implications for the content of subsequent analysis and empirical findings.

Chapter Two examines the political, economic, social and other factors which conditioned the growth, level and structure of industrial

development in Bangladesh and which paved the way for nationalisation. Chapter Three examines the environment which tended to mould the policy and planning for political, economic and industrial development in Bangladesh and their implementation since Liberation. Chapter Four is devoted to a perusal of the organisational structures and management pattern evolved. Chapter Five is concerned with a review of the various facets of operations of the nationalised industries such as production, marketing, distribution of products, financing and development programme. Attempt is made to see if a policy vacuum existed in the nationalisation programme which would have effect upon the operation and performance of the nationalised industries. Chapter Six makes an appraisal of the personnel policies and practices in the nationalised industries. Effort is made to explore the possibility of having a durable, sound and well integrated system of personnel practices and of industrial relations established. The final chapter gives a summary leading to a discussion on the major findings of the study.

CHAPTER I

A THEORETICAL OVERVIEW

Nationalisation as a Continuum

NATIONALISATION remains a controversial issue in the realm of political economy, international relations and public administration. The term seems to have acquired emotive and political connotations. Attitudes towards nationalisation have polarised on ideological grounds. For some¹, it remains a panacea for economic and in particular, industrial ills. For others², it is an unsavoury and illusory political dogma. Nationalisation does no longer generate as much heated feelings as in the early days of its formulation³ but our understanding of its aims, nature, achievements, failures and difficulties has not much improved⁴. Extremely opposite views have tended to blur objective evaluation of nationalisation. Ceaseless and extensive campaigns⁵ have attempted to make bare the facts of the

-
- 1 See for example, Hugh Gaitskell, *Socialism and Nationalisation*, (London: The Fabian Society, 1957); John Stratchey, "The Object of Further Socialization", *The Political Quarterly*, Vol. 24 (January-March, 1953), pp. 68-77.
 - 2 See for example, Rhodes Boyson (ed.), *Goodbye to Nationalisation*, (London: Churchill Press, 1971).
 - 3 The earliest demand for nationalisation of land is attributed to Robert O'Brien of National Reform League, in Britain during 1849-50. See E. Eldon Barry, *Nationalisation in British Politics: The Historical Background*, (London: Jonathon Cape, 1965), p. 31.
 - 4 Peter Donaldson, *Guide to the British Economy*, (Harmondsworth: Penguin Books, 1977), p. 103.
 - 5 E.H. Scammell, "Nationalisation in Legal Perspectives", *Current Legal Problems*, Vol. 5 (1952) pp.30-54, wrote: "It would be easy, on the one hand to expound a thesis which would hail nationalisation as a fairy god mother to the nation, and equally easy, on the other hand to construct a case personifying nationalisation as a tyrant with bloody hands".

shortcomings of nationalisation. Supporters of nationalisation, by and large, however, have failed to explain the objective of nationalisation and assess its performance or bring out the causes of its success or failure. The concept of nationalisation has been shrouded with ambiguities and different meanings have been attributed to it depending upon prevalent traditions, role of political parties or the type of government structure⁶. Considerable difficulties have surrounded the attempts to find a satisfactory and a "completely comprehensive" definition of the term nationalisation⁷. *Institut de Droit International* tentatively adopted a definition of nationalisation in 1952 as

the transfer to the state by a legislative act and in public interest, of property or private rights of a designated character with a view to their exploitation or control by the state, or to their direction to a new objective by the state⁸.

This definition raises more questions than it answers when compared with the alternatives noted below. For example, what is the public interest? Does only a designated character imply of a narrow kind? Is exploitation the same as control? There is no single comprehensive definition and a general lack of consensus in the discussion about nationalisation. Perhaps it is better to see the concept of consensus as a continuum from at the one pole transfer of

6 Mario Einaudi, Maurice Bye and Ernesto Rossi, *Nationalization in France and Italy*, (New York: Cornell University Press, 1955), p. 36.

7 B.A. Wortley, *Expropriation in Public International Law*, (London: Cambridge University Press, 1959), p. 36.

8 Quoted in Martin Domke, "Foreign Nationalization, Some Aspects of Contemporary International Law", *The American Journal of International Law*, Vol. 55, 1961, pp. 585-616.

property from private ownership to public ownership⁹ to the other pole of "transformation" of private ownership into ownership by the community. Along that continuum fall a host of intermediary definitions which appear as "border-line cases"¹⁰ often overlapping with the two categories. In addition, nationalisation as practised in the Third World countries, often constitutes by itself, a special kind. These four types will be discussed below.

The first category of definitions of nationalisation is well represented in the following description given in the *Encyclopaedia Americana*. Nationalisation is defined as

the acquisition and operation by a national government of business enterprises formerly owned and operated by private individuals or corporations¹¹.

White¹² considers nationalisation as a measure which sets in motion a legal process whereby private rights and interests in property are compulsorily transferred to the State or to some organ created by the State. Foighel¹³ views nationalisation as a compulsory transfer to

9 According to David Corbett, *Politics and the Airline*, (London: George Allen & Unwin Ltd., 1965), pp. 38-42, private ownership and public ownership differ only marginally from one another as long as one is looking at them from an economic, not a political point of view. Gaitskell, *op. cit.*, made a distinction between nationalisation and public ownership. The former is generally understood to mean the taking over by the state of a complete industry so that it is owned by and managed and controlled for the community. Public ownership, strictly speaking, means the ownership by the community of any property, whether industrial or not, whether embracing the whole of an industry or only part of it. The state may become the owner without necessarily exercising detailed control even over an individual firm - much less over a whole industry.

10 Domke, *op. cit.*

11 Quincy Wright, "Nationalization" in *Encyclopaedia Americana*, Vol. 19, 1969, pp. 766-767.

12 Gillian White, *Nationalization of Foreign Property*, (London: Stevens & Sons Ltd., 1961), p. 41.

13 Isi Foighel, *Nationalisation*, (London: Stevens & Sons Ltd., 1957), pp. 18-19.

the State of private property dictated by economic motives and having as its purpose the continued and essentially unaltered exploitation of the particular property.

It may however, be facile to think that nationalisation is only a process by which private property is expropriated¹⁴ and absorbed into the State. Even at its worst, as Robson¹⁵ points out, it may be a little more than a transfer of the proprietary interest from private ownership to the State. To Williams¹⁶ nationalisation is an act whereby government takes into ownership, by compulsion, if necessary, private property for a public purpose. Scammel¹⁷ opines that nationalisation in its widest sense implies making national in character and as applied to property it is usually understood to connote a "passing into national ownership". Nationalisation has been viewed

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- 14 C.D. Foster, *Politics, Finance and the Role of Economics, An Essay on the Control of Public Enterprises*, (London: George Allen & Unwin Ltd., 1971), p. 11. The term expropriation and nationalisation are both used to describe the taking of property by a government. Nationalisation is an expropriation by a government as part of a programme of social and economic reform and is viewed as a special form of expropriation. The terms are frequently used interchangeably. Expropriation refers to the taking of one or several properties within a single area of economic activity whereas nationalisation refers to the taking of all properties within the area. The term expropriation is usually applied to measures taken in individual cases and nationalisation is used as a measure of general change in the state's economic and social life. Expropriation can be carried out when necessary by permanent machinery but nationalisation is usually the subject of special legislation.
- 15 W.A. Robson (ed.), *Problems of Nationalized Industries*, (London: George Allen & Unwin Ltd., 1952), pp. 346-7.
- 16 M.L. Williams, "The Extent and Significance of the Nationalization of Foreign Owned Assets in Developing Countries", *Oxford Economic Papers*, Vol. 27 (1975), pp. 360-7.
- 17 Scammel, *op. cit.*

by Sharma¹⁸ as one of a number of ways in which the State can alter or terminate the control or ownership of private property. It is in one form or another, 'the essential ingredient - the fundamental technique' in the establishment of the State ownership and public control of the means of production, exchange and distribution. Bhandari¹⁹ also views nationalisation as implying ownership and control of certain industries or assets which have been taken over²⁰ from the private enterprise in the national interest. On the other hand, according to Webb²¹ while nationalisation involves the compulsory acquisition of property, such property can be in either public or private hands; it does not necessarily imply a movement of assets from the private to the public sector. Friedman²² is of the view that it is not a conceptual necessity that the nationalisation measures encroach upon the economic structure of the community, since nationalisation does not prevent retention of

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- 18 H.C. Sharma, *Nationalisation of Banks in India Retrospect and Prospect*, (Agra: Sahitya Bitan, 1970), p. 1.
- 19 K.C. Bhandari, *Nationalisation of Industries in India Doctrinaire Adherence Redundant*, (Calcutta: Academic Publishers, 1962), p. 2.
- 20 The term "taking of property" or "taking over" includes an outright taking of property and also interference with the use, enjoyment and disposal of property. The more general term "taking of property" is regarded by Domke, *op. cit.*, as preferable to terms - "nationalisation" and "expropriation". The term nationalisation (W. Thornhill, *The Nationalised Industries An Introduction*, London: Nelson, 1968, p. 17-18) usually refers to the process of take over especially as it is done on compulsory basis and the enterprises taken over from the previous private sector owners are administered by public corporation. Taking over is thus a process of nationalisation and may be a device for temporary or permanent acquisition of property by the State for miscellaneous reasons such as ad-hoc management in the absence of owners or managers or as a consequence of punitive confiscation.
- 21 Michael G. Webb, *The Economics of Nationalized Industries*, (London: Nelson, 1973), p. 5.
- 22 S. Friedman, *Expropriation in International Law*, (London: Stevens & Sons Ltd., 1953), p. 12.

private capital and can indeed provide occasion for a certain co-operation between private interests and state capital. According to Friedman, nationalisation only needs to exclude private capital in so far as it concerns the property itself in nationalised undertakings²³.

To Ingram

nationalisation meaning taking of all properties does not always bear the connotation of a general national political programme or of a social purpose²⁴

Nationalisation is not just simply a form of State interference with private property as White²⁵ seems to suggest. It is an assertion of sovereignty, a basic attitude of statehood in international law²⁶.

It is an expression of the sovereignty by the State in order to safeguard its natural resources and to dispose of natural resources and other assets located in its territory, even if they belong to foreigners²⁷. This recognition of sovereignty is sometimes qualified to the

23 The terms nationalised undertakings, nationalised enterprises and nationalised industries are used interchangeably. Public Sector consists of central government, local authorities and public enterprises and public corporations. But the public sector also comprises some enterprises which are taken over from the private sector. Nationalised undertakings are therefore, those among the public enterprises which are taken over from the private sector or which were earlier sponsored by the state and subsequently placed under the nationalised sector. Robson (*Problems, op. cit.*, p. 276) considers nationalised industries as new phase of public enterprise clearly distinguishable from earlier experiments in the field. According to Katzarov, once the act of nationalisation is applied to certain industries, undertakings or enterprises such industries, undertakings or enterprises become nationalised industries, nationalised undertakings or nationalised enterprises. They become a State or more generally collective undertakings. See, Konstantin Katzarov, *The Theory of Nationalisation*, (Hague: Martinus Nijhoff, 1964), p. 161.

24 George M. Ingram, *Expropriation of U.S. Property in South America: Nationalization of Oil and Copper Companies in Peru, Bolivia and Chile*, (New York: Praeger Publishers, 1974), p. vii.

25 White, *op. cit.*, p. 41.

26 M.K. Nawaz, "Nationalization of Foreign Oil Companies - Libyan Decree of September, 1973", *Indian Journal of International Law*, Vol. 14, 1974, pp. 70-80.

27 U.N. General Assembly Resolution 3171 in 1973. Quoted in *ibid.*

extent that the property has to be "taken for a public purpose or in the public interest". This concept of "public utility" or "public use" or "dominant public purpose" is embodied in the constitutions of many countries as a justification for taking private property and above all as a protection for their own citizens against legislative and executive abuse. On the international plain the United Nations Resolution on Permanent Sovereignty over natural resources declared that

the right of the peoples and nations to permanent sovereignty over their natural wealth and resources must be exercised in the interest of the national development and of the well-being of the people of the State concerned²⁸

and that

nationalisation, expropriation or requisitioning shall be based on reasons of public utility, security or national interest which are recognized as over-riding purely individual or private interests, both domestic or foreign²⁹.

The third category of definitions visualizes nationalisation not simply as an act of transfer. Nationalisation, according to this view is not merely a change in the holder of property rights or an act of transferring ownership from the private owner to the community or the state. It is an act of converting or transforming private ownership into collective ownership³⁰. It needs to emphasize that despite the universal acceptance of the rights of the State to interfere with private property³¹ the controversy over nationalisation has its genesis largely

28 U.N. Resolution 1803 (XVII) of 14th December, 1962. Quoted in U.O. Umozurike, "Nationalization of foreign owned property and economic self determination", *East African Law Journal*, Vol. 6, 1970, pp. 79-99.

29 *Ibid.*

30 Katzarov, *op. cit.* p. 160.

31 Chanan Singh, "Nationalization of Private Property and Constitutional Clauses relating to expropriation and compensation", *East African Law Journal*, Vol. 7, 1971, pp. 95-127.

in the concept of the right of property³². The acquired rights are recognised in the law of the civilised nations as the principal basis of intercourse in economic relations³³. The world's religions provide sanction of property³⁴. The concept of "property" has been held as of cardinal importance by individualistic societies for centuries³⁵ with a view to uphold the prevailing societal values. However, the Utilitarians, Liberal Socialists and Fabians have challenged the individualistic conception of property. It has been argued that excessive concern with acquisition of property tends to defeat itself in the process and become morbid and diseased in consequence³⁶. A tiny minority gains control of enormous economic power with concomitant emergence of monopolies in the production system of the society. In such a situation a group of people controlling a strategic sector can

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- 32 R.S. Arora, "Nationalization of International Investment A Case Study of the International Petroleum Industry", *The Indian Journal of Public Administration*, Vol. 19 (October-December, 1973) pp.552-599. John Adams wrote: "Property must be secured or liberty cannot exist... The moment the idea is admitted into society that property is not as sacred as the laws of God and that there is not a force of law and public justice to protect it, anarchy and tyranny commences". See, George A. Peek, Jr. ed., *The Political Writings of John Adams: Representative Selections*. (New York: Liberal Arts Press, 1954).
- 33 Acquired rights are "stronger than the ordinary rights of property" see Wortley, *op. cit.*, pp. 35-36.
- 34 For example, Islamic law upholds the universal maxim of the protection of acquired rights. See Joseph Schacht, "Islamic Law in Contemporary States", *The American Journal of Comparative Law*, (1959), pp. 133-149; Anderson, "The Significance of Islamic Law in the World Today", *The American Journal of Comparative Law*, (1960), pp. 187-198. Also see Maxime Rodinson, *Islam and Capitalism*, (London: Allen Lane, 1974).
- 35 See for example, W. Paschal Larkin, *Property in the Eighteenth Century*, (Dublin: Cork University Press, 1930). Larkin discussed among other things about the rise of individualism (Chapter II) and reactions against the individualistic theory of property (pp. 124-136). Also see, Wolfgang Friedman, *Law in a Changing Society*, (London: Penguin Books, 1972), pp. 93-118.
- 36 R.H. Tawney, *The Acquisitive Society*, (London: The Fontana Library, 1961).

exert pressure greatly disproportionate to their numbers. This tends to breed insecurity, inefficiency and injustice in the society. The fruits of the property - profits and surplus are appropriated by a privileged few and the enormous economic power of the production system is not utilised in the interest of the community. Non-intervention policy enjoyed by the individualist and free traders leads to erosion of physical, moral and cultural values. State intervention³⁷ at this stage becomes a necessity and in some states the right to property is abridged or redefined³⁸. The fundamental ideas of nationalisation comprise the utilisation of all or part of the means of production in the interests of the society and not of private individuals. To attain this aim it is necessary for the means of production, if in the private hands, to become the property of the community³⁹. Such a conception is anathema to the principle of absolute property rights derived from natural law as embodied for centuries in the positive law in all civilized countries⁴⁰. The significance of nationalisation lay in the fact that the social function of property was, for the first time, recognised in legislation⁴¹. Property was regarded not merely as a relationship

37 P.C. Gordon Walker, *Restatement of Liberty*, (London: Hutchinson, 1951), wrote: "The State must control or take into its own hands those industries or sections of industry that, because of their economic power and their innate tendency to act at variance with the interests of the economy as a whole, continuously threaten society with devastation and disaster and simultaneously relapse into over-cautious sub-activity". Also see, Frank Broadway, *State Intervention in British Industry, 1964-68*, (London: Kaye and Ward, 1969), Chapters 1 & 14; Katzarov, *op. cit.*, regards State intervention as forerunner of nationalisation.

38 Singh, *op. cit.* The Bangladesh Constitution defines three forms of ownership and control: State Ownership, Co-operative Ownership and Private Ownership. See *Bangladesh Constitution, op. cit.*, Article 13.

39 W.A. Robson, "Preface" in Katzarov, *op. cit.* p. v.

40 *Ibid.*

41 *Ibid.*

between the owner and the things he owned but as a tripartite relationship which also involved society⁴². Two fundamental elements in the definition of nationalisation therefore emanates from the above⁴³:

(i) the ownership of the means of production and exchange by the community; and

(ii) their utilisation in the interests of the community.

Katzarov has accordingly tried to provide a "comprehensive definition" of nationalisation. According to him nationalisation is (i) the transformation, (ii) in the public interest of a superior kind, (iii) of specific assets or of a specific activity, which (iv) are, or may be means of production or exchange in the widest sense of the term, (v) into the assets or activities of the community - (a) state, (b) local or (c) co-operative, (vi) with a view to their immediate or future utilisation in the general interest and no longer in the private interest⁴⁴. Katzarov views his own definition of nationalisation as the narrow sense of the term, "although the true sense"⁴⁵. In the wider sense of the term, according to Katzarov, nationalisation constitutes a combination of the following acts: the transformation of property, the nationalisation and operation of the nationalised undertakings, co-ordination of the national economy and national economic planning⁴⁶. Gaitskell⁴⁷ understands nationalisation as the taking over by the State of a complete industry so that it is owned by and managed and controlled for the community and public ownership.

Nationalisation as understood in terms of the third category of

42 Katzarov, *op. cit.*, p. 159.

43 *Ibid.*, p. 160.

44 *Ibid.*

45 *Ibid.*, p. 161.

46 *Ibid.*

47 Gaitskell, *op. cit.*, p. 6.

definitions may be synonymous with socialisation⁴⁸. But a distinction is made. According to Friedman⁴⁹ a measure of nationalisation possesses an economic character and permit the reorganisation of certain forms of property within a given sector of economy in order to ensure their survival amid new conditions of production. Measures of socialisation, on the other hand, are of a more distinctly political character and its object is to secure the benefits of technical reorganisation to new social classes acceding to power⁵⁰. Socialisation, according to Friedman, is the most important form of expropriation where the system of private ownership is either modified or excluded from one or several factors of economy with a view to reorganisation of social or economic forces of a particular country. Wortley⁵¹ however finds this distinction of value only so far as the term socialisation seems more directly to refer to Communist or Fascist theory than does the term nationalisation. According to Robson⁵² a substantial realisation of the social

48 Socialisation in the context of socialism and nationalisation should not be confused with its usage in behaviouristic sciences. Socialisation in anthropological studies means "the integrational transmissions of culture", see, Thomas R. Williams, ed., *Socialization and Communication in Primary Groups*, (The Hague: Mouton Publishers, 1975). It also means, among other things, a process "to acquire a new role involving learning and behaviour patterns and technical skills crystallizing role expectations and regarding the self image". See for example, Barbara K. Varley, "Socialization in Social Work Education" in *Social Work*, Vol. 8, No. 3 (July, 1963), pp. 102-9. In the context of this study, Wilczynski's definition of socialisation is appropriate. He defines socialisation as "expropriation of privately owned enterprises, firms, agencies etc., as a rule without compensation". According to him nationalisation is normally associated with a piecemeal process with compensation while socialisation implies no compensation to previous owners". J. Wilczynski, *The Economics of Socialism*, (London: George Allen & Unwin Ltd., 1977) p. 19 & 114.

49 Friedman, *op. cit.*, p. 12.

50 *Ibid.*, p. 6.

51 Wortley, *op. cit.* p. 37.

52 Robson, Problems, *op. cit.*, p. 347.

implications of public ownership and operation is made possible through socialisation. The term socialisation is used where nationalisation is deployed as a part of planning and general economic policy of the State and where it pervades the entire economic life of the country as in the U.S.S.R.⁵³. On the other hand, the State takes over through nationalisation, the ownership and management only of a section of the economy and proceeds along this path gradually without disturbing the existing economic structure in its entirety⁵⁴. Socialisation is viewed as the beginning of a great experiment⁵⁵ and nationalisation is considered as a particular measure of it⁵⁶.

The fourth category of definitions relates to the developing nations and reflect an amalgam of the above definitions in some respects or other. Nationalisation in these nations as in other nations may be viewed in terms of their ideological orientations, state of their economy and the extent of public ownership and control. Chester concluded that nationalisation may have a different meaning for these countries and that it

is not the transfer of already existing industries, but the creation of completely new undertakings which have to be put into working order⁵⁷.

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- 53 Brus writes, "...a long road separates the nationalization of the means of production from their complete socialization, the creation of...a socialist attitude to work and social ownership". See Wlodzimierz Brus, *The economics and politics of Socialism*, (London: Routledge & Kegan Paul, 1973), p. 8.
- 54 Lavigne writes: "Nationalization does not automatically mean Socialization" and that "Even an extensive nationalisation does not transform the country concerned into a socialist regime if there is not at the same time a radical restructure of a socialist regime". See Marie Lavigne, *The Socialist Economies of the Soviet Union and Europe*, (London: Marlin Robertson, 1974), pp. xv-xvi.
- 55 Om Prakash, *The Theory and Working of State Corporations*, (London: George Allen & Unwin Ltd., 1962), p. 33.
- 56 Strachey, *op. cit.*, p. 68.
- 57 T.E. Chester, "Public Enterprise in South Asia", *The Political Quarterly*, Vol. 26, (January-March, 1955), pp. 43-54.

This definition however, does not take into consideration of the incidents of nationalisation in the sense of taking over of existing industries to public ownership which have been increasingly taking place since the beginning of 1950. Definition attempted by Bhandari seems appropriate in the context of these countries. To Bhandari nationalisation in these countries often include transfer of private enterprises to public ownership as going concerns as also setting up of enterprises in the public sector⁵⁸.

Reasons for Nationalisation

To the liberal supporters, nationalisation is a matter of expediency. Nationalisation perceived as a transfer of private property to public ownership on the grounds of "public interest" or "public purpose" tends to support this statement. On the contrary, nationalisation defined as a "transformation" of private property into "collective property" tends to emphasize ideological motivations behind it. Thus considered, nationalisation becomes a matter of principle⁵⁹. These two strands of arguments for nationalisation are not necessarily contradictory to each other. Instead, it seems to validate the assertion that nationalisation covers a wide diversity of experience. It shows that most of the crucially important motives for nationalisation have either one or more of ideological, political, economic, social or administrative dimensions attached to them⁶⁰.

58 Bhandari, *op. cit.*, p. 2.

59 H.A. Clegg and T.E. Chester, *The Future of Nationalization*, (Oxford: Basil Blackwell, 1955), p. 2.

60 See for example, Anthony King, "Ideas, Institutions and the Policies: A Comparative Analysis, Parts I & II", *British Journal of Political Science*, Vol. 3, 1973, pp. 291-313 & 409-423.

Ideologically, nationalisation has not only been often regarded as a principal means to Socialism, it has also been thought as a goal in itself⁶¹. It has been considered as "the only possible means which could not fail to produce the desired ends to Socialism"⁶². A belief in public ownership coupled with an erosion in the traditional belief in the infallibility of proprietary rights of the individual, a desire to establish a "socialist democratic state", to gain workers' control over means of production and disenchantment with experiments in co-operatives have acted, at different times, as motivating factors for nationalisation. The capitalist system, it is argued, leads to waste, artificial scarcity amidst plenty, unemployment and insecurity. Private ownership of capital inevitably tends to concentrate power in a few individuals which ought to be exercised only by the community as a whole and for the benefit of all. Nationalisation helps moving towards greater equality by correcting unearned income by virtue of ownership of private capital which it takes over. Nationalisation places greater control and power of directions over investment and thus helps to maintain full employment and higher productivity. Nationalisation paves the way for greater efficiency by exploiting the economies of larger scale production and management without having to create a private monopoly with evils associated with it. Thus nationalisation comes to represent a great revolt against the ethics, the incentives and the results of capitalist enterprise⁶³. It permits the realisation of certain social, economic and political principles based on some profound changes in the general structure of the society⁶⁴. It has become deeply

61 W.A. Robson, *Nationalized Industry and Public Ownership*, (London: George Allen & Unwin Ltd., 1962), pp. 486-487.

62 Gaitskell, *op. cit.*, p. 5.

63 Robson, *Problems*, *op. cit.*, p. 367.

64 Stratchey, *op. cit.*

rooted in an all embracing programme of economic planning and fundamental social, political, administrative and industrial reforms through collective action⁶⁵.

Many of the acts of nationalisation are conditioned by some nationalist ideology which associate both domestic capitalists and the "international imperialists" so that they do not interfere with the political and economic interests of the nationalising country. It is regarded as a means to exercise the rights of the States and people to determine their economic future and economic self determination⁶⁶. It aims at furthering the "liberation" and to act against "economic aggression"⁶⁷. It is regarded as a policy measure aimed at increasing indigenous control of the economy and an assertion of "economic independence"⁶⁸. In recent times nationalisation arguments have tended to emerge in the more developed countries mainly as a result of the establishment of common market zones, reduction of tariff barriers and the growth of massive multi-national corporations⁶⁹. Nationalisation has also been desired, at times, as to demarcate the areas of operation of the public and private enterprises and ensure that public

65 Robson, *Problems*, *op. cit.*, pp. 278-296. Also see for example, Hugh Gaitskell, "The Economic Aims of the Labour Party", *The Political Quarterly*, Vol. 24, (1953), pp. 5-18.

66 Umozurike, *op. cit.*

67 Martin Domke, "Indonesian Nationalization Measures Before Foreign Courts", *The American Journal of International Law*, Vol. 54, (1960), pp. 305-323.

68 Al Gedics, "The Nationalization of Copper in Chile Antecedents and Consequences", *Review of Radical Political Economics*, Vol. 5, (1973), pp. 1-25. Nationalisation of three largest copper companies in 1971 was heralded as Chile's "Second Independence".

69 N.S. Carey-Jones, S.M. Patankar and M.J. Boodhoo, *Politics, Public Enterprise and the Industrial Development Agency*, (London: Croom Helm, 1974), pp. 13-16.

enterprises⁷⁰ function as supplement to private enterprise⁷¹. To the followers of free enterprise philosophy, nationalisation may be desired, paradoxically as it seems, as a guarantee, so that public sector activities are carried on in accordance with commercial principles as the nearest approximation to private sector under government control⁷².

Economics plays a very definite part in nationalisation. A monopoly has always been a suspect even if it is created as a public utility or operate on commercial consideration through some form of licensing granted by the government. Monopolist control over the means of production and channels of distribution leads to concentration of both economic and political power in a few hands. The community as a whole may suffer at the discretion of the monopolists in terms of stoppage of supply, interrupted services, inefficiency in production, wastes and higher prices. The need for effective planning of the economy renders support to arguments for nationalisation. Effective regulation of national resources into desired channels may be best obtained through ownership of these resources. Among other economic

70 Encyclopaedia Britanica defines Public Enterprise as an "undertaking that is owned by a national, state (or provincial) or local government, supplies services or goods at a price, and is operated on a more or less self-supporting basis". The definition covers industrial, financial, agricultural and commercial concerns which are either wholly or partially (with more than 50 per cent of the capital) owned and controlled by the government. State Enterprise, State Undertaking, Government Enterprise or undertaking are often used as synonymous of Public Enterprise. David Coombes, *State Enterprises: Business or Politics*, (London: George Allen & Unwin Ltd., 1971), refers to nationalised industries as a special type of state enterprises, pp. 20-24.

71 *Ibid.*, p. 27.

72 Thomas writes: "The aim was...to manage...affairs on the same broad commercial principles as a concern in the private sector". See R.E. Thomas, *The Government of Business*, (Oxford: Philip Allan, 1976), p. 141. Also see, Henry H. Schloss, "Public Enterprise as a Form of Business Enterprise: Role, Purpose and Performance", *The Annals of Public and Cooperative Economy*, Vol. 48, 1977, pp.299-305.

motives are the compelling need to salvage some private enterprises in deep economic trouble⁷³. Nationalisation of foreign investments are seen as a cure for economic ills and an inexpensive and non-risky mode of financing development or reconstruction programmes. At the time of an economic crisis nationalisation affords an opportunity to the politicians to divert public attention. Nationalisation of foreign enterprises helps to stop drain of capital outside in the form of remittance of profits, dividends and royalty and net transfer of capital and to sustain the indigenous enterprises which are otherwise squeezed out in competition with the multi-national corporations⁷⁴.

Of the political dimensions attached to nationalisation a major reconstruction programme is necessitated after a crisis or instability or a war or in the wake of an independence/liberation movement. Frequently, collaborators of the enemy are to be punished and their "abandoned properties" are seized⁷⁵. It becomes politically necessary to eliminate the vestiges of foreign economic domination. Considerations of strategic defence needs induce the host country to take measures to safeguard the "national interest", to protect the "public domain" and to take such measures as will ensure public control of resources⁷⁶.

There is a social dimension to the motives for nationalisation. Nationalisation is motivated by the objective to ensure a more equitable distribution of national income among the various sections of the

73 Carey-Jones et al., *op. cit.*, p. 22.

74 Ingram, *op. cit.*, pp. 3-4.

75 Friedman, *op. cit.*, p. 31. Friedman writes "...the play of political forces and the de facto situation created by the German invader would seem to be an adequate explanation of the profound economic changes in Eastern Europe, regardless of any influence exercised by the socialist system of the Soviet Union".

76 See G.P. Carvalho, *Petrobras: A Case Study of Nationalized Institution Building* (unpublished Ph.D. dissertation: University of Connecticut, 1976).

people⁷⁷. This suggests a desire to effect changes in the social order, to create equal opportunity for all citizens, to acquire experiences, know-how and technology, to maintain employment at a higher level, to provide security for the citizens, to ensure a fuller life for the workers, to create industrial harmony and to offset the effects of trade cycles. Enclave development⁷⁸ resulting from foreign investment leads to unfair localisation and nationalisation ensures dispersion of industries to depressed areas and open up opportunities for the local people. Public ownership and control are expected to reduce costs and prices and banish nepotism in recruitment and other avenues of patronage.

There are strong administrative elements involved in a nationalisation programme. In the wake of a political crisis or war many enterprises are left without owners or managers and some are seized from the enemy collaborators. This accidental taking over of enterprises often leads to nationalisation. State ownership and control seek to bridge the entrepreneurial and managerial gaps left by the previous owners and entrepreneurs who were either aliens or collaborators. Punitive cum preventive nationalisation is some times resorted to prevent certain sabotage activities in private enterprises. Nationalisation becomes a more practical form of State intervention in order to make use of the economies of scale and rationalisation through organisational improvement and effective coordination. Nationalisation is advocated so that adequate capital and investment, dynamic leadership

77 See, George Caus and Marcelo Selowsky, *Potential Distributive Effects of Nationalization Policies: The Economic Effects*, (Washington: IBRD Staff Working Papers No. 178, 1974). Also see C.A.R. Crosland, *The Future of Socialism*, (London: Jonathan Cape, 1963), pp. 19-41.

78 Ingram, *op. cit.*, p. 10.

and management, facilities for research and introduction of modern technology can be provided. Nationalisation may thus ensure to put the management on sound and modern footing.

In summary, a rigid compartmentalisation on the basis of ideology or the lack of it seems unrealistic. Debates surrounding nationalisation often contained arguments of expediency that surpassed those based on ideology⁷⁹. In spite of "rightist" orientation some governments have established public enterprises and in spite of socialist predilections, the practical aims of nationalisation of some governments are economic⁸⁰. Thus nationalisation is not a socialist monopoly⁸¹. It has been, therefore, asserted elsewhere⁸² that nationalisation is not an end, but only a means to an end. Dissimilar ideological attitude may not necessarily inhibit pursuance of a nationalisation programme. Even in the developing countries where the appeal of nationalisation is great⁸³, the governments have taken on responsibility of establishment of public enterprises through nationalisation or other means, irrespective of their ideological commitments⁸⁴.

79 A. Beacham, "Nationalization in Theory and Practice", *The Quarterly Journal of Economics*, Vol. 65 (November, 1954), pp. 550-553.

80 Chester, *Public Enterprises*, *op. cit.*

81 Beacham, *op. cit.*

82 Tawney, *op. cit.* p. 120.

83 M. Bronfenbrenner, "The Appeal of Confiscation in Economic Development" in A.N. Agarwala and S.P. Singh, ed., *The Economics of Under-Development*, (Bombay: Oxford University Press, 1958), pp. 472-494.

84 Issara Suwanabol, "Public Policy Making in the Third World: The Case of Asean Public Enterprises". A paper presented to the 21st Annual Australian Political Science Association 27-30 August, 1979, Hobart.

Nationalisation Throughout the World

Nationalisation has become a world wide phenomenon. Since the Communist revolution in Soviet Russia it has come to be introduced simultaneously under radically different sets of circumstances⁸⁵. Until the First World War measures of nationalisation were effected "sporadically" but the application of nationalisation did not have yet a definite character⁸⁶. Nationalisation came to rest on a relatively sounder base and more clearly established principles⁸⁷. In the Soviet Russia, nationalisation dates from the very beginning of the Soviet power in 1917 with abolition of private landed property and private ownership of the means of production and went through a number of theoretical and experimental phases⁸⁸. A common ideological motivation and structure in the East European State - Bulgaria, Czechoslovakia, Hungary, Poland, Rumania and Yugoslavia made nearly complete nationalisation of their economic life possible⁸⁹. China was also developing its economy on the basis of nationalisation⁹⁰. The measure of socialisation adopted in these countries originated from an economic philosophy based on the establishment of a centrally planned economy and elimination of the traditional capitalist system⁹¹. Under different circumstances

85 See for example, Katzarov, *op. cit.*, pp. 26-73; White, *op. cit.*, pp. 18-26; Wortley, *op. cit.*, pp. 58-71; Friedman, *op. cit.*, pp. 5-66; Foighel, *op. cit.*, pp. 11-31; also, W. Friedman & J.F. Garner *Government Enterprise: A Comparative Study*, (London: Stevens & Sons, 1970); A.H. Hanson, ed. *Public Enterprise: A Study of its Organisation and Management in Various Countries*, (Brussels: International Institute of Administrative Sciences, 1955).

86 Katzarov, *op. cit.*,

87 *Ibid.*, p. 76.

88 *Ibid.*

89 Lavigne, *op. cit.*

90 See, R.M. Breth, *Mao's China: A Study of Socialist Economic Development*, (Melbourne: Longman Cheshire, 1977) pp. 23-25.

91 Bela-Csika-Nagy, *Socialist Economic Policy*, (London: Longman, 1973) pp. 37-39.

Mexico enacted a Constitution in 1917 which emphasized "the priority of the social and economic elements in state ownership" and launched a series of actions having the effect of nationalisation in the legal sense of the term⁹². Nationalisation was also effected in countries like Britain, France, Italy, Austria and Germany, each of whom had pronounced liberal economy. Even in the U.S.A., the citadel of free enterprise, the Tennessee Valley Authority, contained some characteristic elements of nationalisation. While public enterprises came to exist virtually in all countries of the world, nationalisation was increasingly resorted to as a means of expansion of the public sector and for launching public enterprises especially in the Third World countries. During the period 1956-72 there were 121 "events" of nationalisation in 40 developing nations in Asia, Africa and South America involving assets worth more than U.S.\$10 billion and which was nearly 50 per cent of foreign investment stock in these countries at the end of 1972⁹³. Another estimate shows that during the period 1960-74 there were 875 cases of nationalisation in 62 countries and of this 340 "cases" were effected in black Africa⁹⁴. Instances of nationalisation include diverse activities - agriculture, land, mining, manufacture, trade, public utilities, banks, insurance companies, transports, fuel, power, public works, etc. The fundamental idea of nationalisation - the transfer of the means of production, distribution and exchange to the State with a view to their utilisation in the interest of the community came to be accepted and adopted in varying

92 Katzarov, *op. cit.*, pp. 31-32 & p. 70; Friedman, *op. cit.*, pp. 10, 23 & 25.

93 Williams, *op. cit.*

94 United Nations, Secretary General, *Permanent Sovereignty Over Natural Resources*, A/9716 (Supplement to E/5425), 20 September, 1974.

degrees in all these countries although specific political, social and economic conditions were different.

The Process of Nationalisation

Launching of nationalisation involves two legislative processes⁹⁵. Firstly nationalisation is effected generally on the basis of an expressly provided constitutional sanction. Like the socialist countries, nationalisation is recognised and incorporated in the constitutions of the various non-socialist countries confirming its legal basis⁹⁶. Most of the present day constitutions attempt to define not only the political form and mechanism of government, but also the economic and social structure of the State. They recognise the limitation or alienations of property in the general interest and keep provisions which would not debar the State from directly undertaking economic activities⁹⁷. Thus several constitutions have categorised property as (i) State, (ii) co-operative, and (iii) private. In several constitutions nationalisation is treated as a distinct institution, even though in some cases nationalisation has preceded the promulgation of the constitution itself⁹⁸. Not all constitutions have, however, directly used the term nationalisation even though making indirect references to it. Appearance of nationalisation as a distinct institution in the constitution and reclassification of property as above reflect a profound ideological change that has taken place in the social, economic and political structure of a great number of the States.

95 Katzarov, *op. cit.*, pp. 131-142.

96 *Ibid.*

97 *Ibid.*

98 *Ibid.*, p. 136. In Bangladesh nationalisation law preceded the formation of the Constitution as in U.S.S.R.

Secondly, nationalisation is effected through enactment of special legislation in the Parliament or by the highest authority of the State having law making power. It may not be regarded as an administrative or executive action. A nationalisation law confers upon or transfer to the State of (a) certain activities or certain branches of the economy, (b) certain undertaking(s) of importance to the economy or (c) economic activity as a whole. Thus nationalisation may be partial, individual, selective, complete or general in nature⁹⁹. A partial nationalisation may affect only some or all major firms and leave others to continue their operations. Nationalisation can be immediate or else involve a planned move to be implemented in phases. The complete nationalisation is also regarded as a system that involves elimination of the private ownership of the means of production. Likewise in a predominant nationalisation although private property and private enterprises are retained, a drastic limitation is imposed on them. A selective nationalisation, on the other hand, is based on private property and private enterprise, which is retained in principle.

The right of a State to nationalise the property of the citizens or the aliens is not now seriously challenged. But certain limitations have been placed upon the exercise of the expropriatory powers of the State. The State has an obligation to respect rights acquired by the aliens according to international law¹⁰⁰, and of property acquired by its citizens according to the provisions enshrined in the national constitution. The obligation to pay compensation for nationalisation of a property - whether of aliens or of local citizens is customary and

99 Katzarov, *op. cit.*, p. 195.

100 Foighel, *op. cit.*, pp. 39-74.

a well established principle¹⁰¹. This obligation has been incorporated in most of the national constitutions and recognised in practice even by socialist nations. A basic tenet of nationalisation is that it can not be arbitrary or discriminatory. It has been stated that nationalisation of property may be carried out only for reasons of "true public necessity"¹⁰². The property has to be taken for a public purpose or in the public interest. The government is often bound to afford protection of foreign property in commercial treaties. Moreover, the property in question must be within the jurisdiction of the nationalising State. On the other hand, if the purpose of nationalisation is independent of any consideration of the nationality of the affected owners, it can not be said that the dispossessed owners have been discriminated against.

101 *Ibid.*, pp. 75-87. International law did not impose an obligation to pay compensation out of all proportion to the financial capacity of states. See, Friedman, *Expropriation, op. cit.*, p. 207. Also see, Richard B. Lillich, *The Valuation of Nationalized Property in International Law*, (in three volumes) (Charlottesville, University Press of Virginia, 1952).

102 Wolfgang Friedman, *The Changing Structure of International Law*, (London: Stevens, 1964), p. 321. According to Friedman nationalisation of alien property is lawful but only if it is for a public purpose, non-discriminatory and accompanied by compensation which is prompt, adequate and efficient. Also see, Katzarov, *op. cit.*, p. 339, who writes: "The changed attitude towards property is particularly marked in relation to nationalization". N.R. Doman, "Postwar Nationalization of Foreign Property in Europe", *Columbia Law Review*, Vol. 48 (1948), pp. 1125-116) writes: "Insistence on abstract legal rights with no consideration for political and economic realities will not provide such solution".

Environment, Organisation and Operation

Once nationalisation is acted upon, the ownership of the enterprise is transferred to the State. But more than a mere transfer of ownership there occurs a transformation such as:

- (i) a private property is changed into a State or community property;
- (ii) private profit motive and private enterprise as the basis of economic activity are supplanted by a new orientation towards the collective interests based on State planning; private competition is excluded;
- (iii) the undertakings that are nationalised become legal entities independent of the State but are organically attached to it.

No single trend is discernible as typical of innovations in organisation and control of the nationalised undertakings. Indeed there is a great diversity in the forms adopted on the implementation of nationalisation. Katzarov¹⁰³ has pointed out three groups of structure and form within the nationalised sector that are distinguishable. The character of these groups are largely conditioned by the aim of nationalisation in a given country and particularly by the question whether the State is striving to control production and exchange in their entirety as in Soviet Russia or predominantly as in East European socialist countries or only selectively in some of the major branches only as in Britain and France. The wide diversity of the forms of organisation and control and their "frequently paradoxical appearance" is attributed to the exceptional conditions in which they were created.

103 Katzarov, *op. cit.*, pp. 190-196.

Nationalisation effected in a socialist economic system¹⁰⁴ is based on the complete rejection of private property in the means of production and of private enterprise. This results from the application of mono-party rule which helps integrate the economic and non-economic objectives in the State's totality of action, central economic planning, social ownership of the means of production and socially-equitable distribution of national income through virtual elimination of unearned incomes. In East European socialist countries, however, some deviations have been made. Radical nationalisation is instituted by constitutional means in an equally explicit manner but similarly is the place of private enterprise and property recognised. However, the role of the private enterprise is severely delimited. The problem of the form of nationalised undertakings is obviously simplified where the nationalised sector exists alone or predominates, since it does not have to face many of the complex issues that further arise out of the private sector operating to a significant extent or competing with the public sector. As a result a unified status for the State undertakings was achieved in Soviet Russia and East European countries in a relatively clean and spontaneous fashion.

As opposed to a socialist economic system where State (public) property is the dominant sector, in a capitalist economy private ownership is the dominant sector. Being not unique for a

104 The general characteristics distinguishing the socialist from capitalist economic system are, according to Wilczynski, the following four basic elements: (i) concentration of power in the Communist party representing the working class, (ii) social ownership of the means of production, (iii) central economic planning and (iv) socially equitable distribution of national income. Wilczynski, *op. cit.*, pp. 22-23.

socialist economy, nationalisation is also grafted on to a capitalist economic structure based on private property, private enterprise and competition. Heterogeneous ideological reasons but mainly economic compulsions - cause in part a structural change in such economies.

Nationalisation is carried out as a necessary move to improve the existing socio-economic system, i.e. the capitalist system. It is not treated as a means of a gradual socialist transformation but ultimately to facilitate the development of the private sector. Even when public sector is genuinely conceived as compatible with the private sector in such an economy, the problem of the form of nationalised enterprises appear to be complicated with a dominant private sector and which may constitute a competitive element. Moreover, as the structure of economic life is not uniform it becomes difficult to determine the structure of the nationalised enterprises.

The sharp distinction between capitalist and socialist economies have been obliterated to some extent by the developments described as "convergence"¹⁰⁵ of the two systems. This process is marked by increasing departures from free enterprise and growing State intervention in the capitalist world and with liberal economic revisionism incorporating several elements of capitalism in the more developed socialist countries. In the changed circumstances, Socialism is no longer regarded as diametrically opposed to individualism and the liberal economy and they are not as mutually exclusive systems as before. This development has made

105 See, Jan Tinbergen, "Do Communist and Free Economies Show a Converging Pattern?", *Soviet Studies*, Vol. 12, 1961, pp. 333-341; P. Wiles, "Convergence - Possibility and Probability" in A Balinsky, ed., *Planning and the Market in U.S.S.R.*, (Rulgers University, 1967), pp. 89-118; Jan S. Prybala, "The Convergence of Western and Communist Economic Systems: A Critical Estimate", in M. Borstein ed., *Comparative Economic Systems: Models and Cases*, (Irwin, 1969), pp. 442-452.

compatibility between public sector and private sector possible.

This co-existence of nationalisation with liberal economy results in the parallel existence in the economy of

- (i) a private sector in which free competition, private enterprise and private property manifest themselves;
- (ii) a nationalised sector at the disposal of the State. Within this sector, a further distinction can be drawn between a nationalised sector enjoying a monopoly position, exclusively reserved to the State and a nationalised sector concurrently existing with the private sector; here the State undertakings find themselves in competition with private enterprise.

The term "mixed economy" has gained currency to denote the mixture of working of both public and private enterprises. In all contemporary States except in the totalitarian socialist states examples of complementarity between public and private sectors are discernible. It does not, however, mean exclusion of competition between the two but none of them is in a position to overwhelm the other in the economy. The interaction of free enterprise and State intervention has evolved a complex system in many countries with different background, ideologies and legal approaches. The role, purpose and motives of public enterprises and private enterprises continue to shift with changes in ideas, policies and events in the non-socialist mixed economies.

According to Jenkins¹⁰⁶, nationalisation seems to have helped to rehabilitate, strengthen and stabilize the ailing capitalist sector when operating in the framework of a mixed economy. Nationalisation does not take effect and nationalised sector does not operate in a

106 Clive Jenkins, *Power at the Top*, (London: Macgibbon & Kee, 1959), p. 13.

social and economic vacuum. In a mixed economy, the relation between capitalist sector and state business operations is far from being distant. Instead nationalised sector is often subordinated to the needs and interests of the capitalist economy. Contrary to ideological wishes of creating a challenge to capitalist economy, nationalisation tends to become an instrument in maintaining the old class structure of the society intact¹⁰⁷. Generous compensation arrangements for the previous owners help to sustain the balance of social forces favourable to the propertied class as before. Public enterprises are steered to acquire increasingly more commercial orientation¹⁰⁸. The prices and investment policies are forced to conform to the needs of the private sector. Production units of the nationalised sector are forced to hold down prices even if it means deficit. Payment of compensation and depressed prices through State intervention result in transfer of resources from the nationalised sector to private sector¹⁰⁹. No significant redistribution of income between the various social groups and especially in favour of those at the bottom of the ladder can be achieved through the nationalised sector¹¹⁰. Scant control over the pricing and general activities of the private sector by the State, growing oligopolization in manufacturing and distribution and deteriorating competition tends to emphasize a predominance of the

107 *Ibid.*, p. 22.

108 John Hughes, *Nationalised Industries in the Mixed Economy*, (London: The Fabian Society, 1960).

109 Jenkins, *op. cit.*, p. 25.

110 Cauas and Selowsky, *op. cit.* Cauas and Selowsky study shows that the redistributive effect will depend crucially on the part of the government in choosing the channels of distribution. If their ability changes as a result of new pressure groups - associated with nationalisation policy the effective redistributive effects can be quite different to the ones expected when the policy was conceived.

capitalist sector¹¹¹. The nationalised enterprises are relegated to the task of supplying cheap goods and services to the high profit making private sector and the public concerns become capitalist institutions. The situation is further compounded as the government fails to take the advantage of the opportunities to carry out a reform or reconstruction through the State planning mechanisms. Resurgent propertied class and their active adherents mount a planned and concerted campaign against the public sector with a view ultimately to revert towards "privatisation" of the economy through the process of denationalisation.

Denationalisation and Disinvestment

If nationalisation enables ownership of enterprises to be transferred from private sector to public sector, a reversal of policy should be practicable that is, a retransfer of ownership and control from the public to private sector. The latter process has come to be known in recent times as denationalisation¹¹² in contrast to nationalisation. It has also been termed as "reprivatisation"¹¹³. However, despite the fact that overt enthusiasm about nationalisation has waned considerably and despite controversies surrounding the concept as in the past, usual reaction of the governments has been to consolidate the effects and operation of nationalisation once it has been acted upon

111 Hughes, *op. cit.*

112 Herbert Heldman, "The Economic Problems of Denationalisation", *Political Science Quarterly*, Vol. 66, pp. 576-597, 1951. Also, Edmond Langer, "The Danger of Denationalisation to Freedom, Security and Welfare", *Annals of Public and Co-operative Economy*, Vol. 32, pp. 27-74, 1961; Katzarov, *op. cit.*, pp. 239-245; Scammel, *op. cit.*, p. 53.

113 Return of some public undertaking to private enterprise is called "reprivatisation". Katzarov, *op. cit.*, p. 240.

irrespective of ideological views held by them¹¹⁴. Thus, practical experience in denationalisation is "too sparse and succinct". Some examples of denationalisation can be found in Britain among the Western nations and Syria among the Third World nations. Both Britain and Syria have witnessed a cycle of nationalisation, denationalisation and renationalisation¹¹⁵.

The concept of denationalisation tends to be often confused with the term disinvestment¹¹⁶ just as the concept of nationalisation is distorted through equating all public enterprises with nationalised undertakings. It seems the term denationalisation connotes an act which have a nullifying effect on an earlier act of nationalisation by transferring ownership of the nationalised undertakings from public sector to private sector. Abolition of a public enterprise earlier set up by the State as a going concern, public utility or as a pioneering activity and from public funds and disposing of its shareholdings

114 See, Herbert E. Weiner, *British Labour and Public Ownership*, (London: Stevens & Sons, 1960), p. 80 & pp. 84-5; also, Barry, *op. cit.*, p. 376.

115 John Hughes, *Plan for Steel Renationalisation*, (London: The Fabian Society, 1958); M.R. Kassam, *Nationalization of the Syrian Textile Industry with Special Reference to Labour Behaviours*. Unpublished Ph. D. dissertation, University of Pennsylvania, 1968, pp. 111-4; D.D. Brulle, "The Labour Plan for Renationalisation of the British Iron and Steel Industry", *Annals of Public and Cooperative Economy*, Vol. 17, 1966, pp. 213-272.

116 Disinvestment is used generally to mean sale of shares of a company with a view to transfer ownership. It is also a form of denationalisation when public property is transferred to private ownership through open or negotiated sales. It relates to sale of shares to private buyers of a company initially set up in public sector. It seems to differ from privatisation which means transfer to private ownership of a nationalised undertaking or reprivatisation which is really restoration of ownership to previous owners of the same. In practice, this distinction is often blurred.

to general public or private sector group organisations, companies or agencies cannot be considered as denationalisation. At the best such an act can be construed as disinvestment of shareholdings of public enterprises in favour of the private sector. Disinvestment can thus be a converse action of para-nationalisation¹¹⁷. Therefore, denationalisation is not just simply something which is contra-paranationalisation. In a mixed economy disinvestment of public enterprise is viewed as a means to raise new capital by the State once its objective of pioneering a new enterprise is accomplished.

A doctrinaire adherence to a policy of denationalisation may involve complicated legal, economic and social problems¹¹⁸. From a pure legal point of view denationalisation may not give rise to serious difficulty in cases where shares in certain companies were transferred from private to public ownership¹¹⁹. It is purely a question of repealing the Act constituting the corporation controlling the nationalised undertakings and presenting the shares vested in the corporation for sale in the open market. However, it is not as simple where through nationalisation is vested the physical assets of private enterprises in public corporations specially constituted to run the nationalised undertakings¹²⁰. A statute containing the provisions for denationalisation in such cases will have to repeal the nationalisation law, dissolve the public corporations created thereunder and also to create new private companies with specified amount of share capital which will

117 Wieslaw Sadzikowski, "The Public Sector in Capitalist Countries Australia, Great Britain, France and Italy", *Oeconomica Polona*, 1/1975. Paranationalisation takes place "creepingly" through buying of shares held by private owners by the State, pp.65-89.

118 Heldman, *op. cit.* Langer, *op. cit.*

119 Heldman, *op. cit.*

120 *Ibid.*

be placed for subscription for members of the public. Furthermore, a move to denationalise an industry will require its administrative structure to be reorganised. The public corporation created under nationalisation statute may be abolished but the need for a regulatory agency for the concerned industry becomes imperative. Thus even after denationalisation, the industry is subjected to State control and the industry continues to be supervised by the new regulatory agency created as a sequel to denationalisation¹²¹. The economic problem posed by a denationalisation programme is also formidable¹²². Nationalisation of basic industries is a central feature of introduction of economic planning as a national policy. Heldman divided the economic problems arising out of denationalisation into four groups: financial, price policy, labour and technology and distribution. The exact form of the problems will vary from country to country and depend upon the institutional background and heritage of the industry. Like nationalisation, denationalisation is a pervasive phenomenon and the problems relating to it may vary according to a multitude of factors such as national and social philosophy, economic condition, income distribution, group interests within industry, and notion about the optimum economic structure of a country.

Denationalisation is, however, theoretically possible although the above factors hinder its implementation in various ways¹²³. The complexity of the process is accentuated when the entire industry is

121 Weiner, *op. cit.*, p. 85. The Iron and Steel Board was set up as the authority responsible for supervising the industry after denationalisation in Britain.

122 Heldman, *op. cit.*

123 Katzarov, *op. cit.*, p. 244.

involved or when the entire economy is nationalised. Denationalisation can be implemented far easier in an economy where nationalised and private sector coexist¹²⁴. It is nevertheless imperative that there is a complete recognition of the implications of a denationalisation policy. It is necessary that the majority of the people are willing to accept the consequences of a reversal of such a policy.

As aptly pointed out by Heldman:

The social organism is similar to the biological organism in the manner in which it selects or rejects internal change in the structure¹²⁵.

However, the policy makers involved in the process of nationalisation, denationalisation and renationalisation tend often to become oblivious of this truism.

Performance and Evaluation Criteria

Expectations underlying nationalisation and disenchantment with it, from time to time tend to find expression in the demands for denationalisation. This warrants an objective assessment. The foregoing overview has indicated the multifaceted dimensions of nationalisation in theory and practice. Interactions of politics, economics, sociology, administration and law give great complexity to the subject. Nationalisation, it seems, is not just an economic transaction and therefore quantifiable for concrete assessments. The imponderables such as moral, social and ideological aspirations toward establishing a just and harmonious society introduce elements which make it difficult for an objective evaluation of nationalisation in various countries and in different setting. Under varying political,

124 Katzarov, *op. cit.*, pp. 244-5.

125 Heldman, *op. cit.*

economic and social environments nationalisation has come to be regarded often as an end in itself but more often as means to various and even contradictory ends. Nationalisation in different circumstances has come to be typified as "socialistic", "democratic", "capitalistic", "nationalistic" or "reactionary"¹²⁶.

In such a state of diffused perspectives public enterprises even when created through the means of nationalisation suffer from "dubious terms of reference"¹²⁷ and vague, unrealistically defined and conflicting objectives¹²⁸. Thus although the number of public enterprises world over has tended to increase irrespective of ideological orientations of the countries concerned and public enterprises are accepted as major instruments of socio-economic policies, the basic philosophy and overall strategy have seldom been precisely defined. Dimock¹²⁹ as early in 1949 discerned in the government corporations in U.S.A. "uncertainty" as to their "distinctive purpose and underlying principles". Over the period of years this diagnosis for public enterprises has not proved wrong. Especially in the Third World countries it is now established through various surveys¹³⁰ that public

126 V. Vinogradov, *Socialist Nationalisation of Industry*, (Moscow: Progress Publishers, 1966). Vinogradov mentions of Bourgeois Nationalisation, the reactionary nature of the Reformist theories of nationalisation and Democratic Nationalisation in addition to Socialistic Nationalisation. Also see Harry G. Johnson, "A Theoretical Model of Economic Nationalism in New and Developing States", *Political Science Quarterly*, Vol. 80, June 1965, pp. 169-185.

127 Gart Glentworth, "Public Enterprises in Developing Countries", *Journal of Administration Overseas*, Vol. 12, July, 1973, pp. 190-205.

128 *Ibid.*

129 M.E. Dimock, "Government Corporations, A Focus of Policy and Administration", *American Political Science Review*, Vol. 63, 1949, pp. 899-921 & 1154-64.

130 See for example, P.K. Basu, ed. *Approaches to the Public Enterprise Policy in Asia on Investment, Prices and Returns Criteria*, (Kuala Lumpur, Asian Centre for Development Administration, 1976), p. 131.

enterprises, by and large, lack definite policy guidelines for their operation. As a result public enterprises have not often responded to the facts surrounding their creation and to the imperatives built into their existence. Instead of being national concerns they have often succumbed to sectarian interests.

It has been argued that only in a totalitarian communist country ideology can be "meaningfully and clearly regarded" as the determinant of the economic system¹³¹. Thus in societies following socialist economic policy there is no scope for ambivalence in ideology or objectives of nationalisation or goals to be realised by the nationalised enterprises. In the non-socialist economies, on the other hand, the course of economic development is fashioned by a multiplicity of ideologies and it is impossible to regard any single ideology¹³². Not surprisingly, therefore, public enterprises in non-socialist economies are no longer judged through ideological perceptions. Ideology has become increasingly insignificant in the operation of public enterprises in the Third World¹³³.

131 Alexander Gerschenkron, "Ideology as a System Determinant" in Alexander Eckstein ed., *Comparison of Economic Systems Theoretical & Methodological Approaches*, (Berkley: University of California Press, 1971), pp. 269-89.

132 *Ibid.*

133 Suwanabol, *op. cit.* In a study conducted under the auspices of the Asian Centre for Development Administration, Kuala Lumpur it has been observed that ... "the prevailing ideology in these countries aims more at controlling private enterprise rather than rejecting it altogether, as is evident from the fact that none of these countries accept the more orthodox socialist ideology.." See A.S.H. K. Sadique, "Coordination and Control of Public Enterprises: An Overview of the Asian Situation", in A.S.H.K. Sadique ed. *Public Enterprise in Asia, Studies on Coordination and Control*, (Kuala Lumpur: Asian Centre for Development Administration, 1970) p. 7. One of the distinctive features of Australian public enterprises system, for example, is the striking extent to which the public sector has advanced without ideological support. See R.L. Wettenhall, "Public Ownership in Australia", *The Political Quarterly*,
(continued over)

Relegation of ideology does not however preclude the need for an explicit statement of objectives for public enterprise nationalised or directly sponsored by the State. Indeed the Geneva Seminar on organisation and administration of public enterprises found that

it is essential to make a selection from the range of possible objectives or to arrange them in some clear order or priority. Unless this is done, not only are national purposes unlikely to be carried out but the morale of the enterprise managers is likely to be undermined since every critique of management will have a different criterion by which he assesses its performances¹³⁴.

Notwithstanding the above assertions the literature is replete with inconclusive analyses about the aims and objectives for running and operating nationalised and other forms of public enterprises¹³⁵. The various strands of arguments have been reinforced by a variety of critical lessons drawn from the experiences in different countries. Policy debates surrounding the objectives of public enterprises, following categorisation made by Merrett¹³⁶ fall under the three headings:

- (i) Unrestricted welfare criteria;
- (ii) Commercial criteria;
- (iii) Restricted welfare criteria.

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- 133 (Continued) Vol. 36, (1965), pp. 426-440. Musolf writes: "Important as ideology is, one may suspect that practical circumstances are even more critical in the choice of public enterprises". See, Lloyd B. Musolf, "Public Enterprise and National Development (Mixed Economy)" in the United Nations; *Organization and Administration of Public Enterprises Selected Papers*, (New York: Department of Economic and Social Affairs, United Nations, 1968, p. 112.
- 134 *Report of the United Nations Seminar on Organisation and Administration of Public Enterprise*, United Nations: Department of Economic and Social Affairs, document ST/TAO/M/35. Quoted from Section I of the report.
- 135 The multiplicity of objectives has not been clearly defined. See Basu, *op. cit.*, p. 42. Also see, Andre Heurtebise, "The Place of Public Enterprises in the Economy", *Annals of Public and Co-operative Economy*, Vol. 49, 1978, pp. 309-343.
- 136 A.J. Merrett, "A Reconsideration of Investment and Pricing Criteria in the Nationalised Industries", *The Manchester School of Economic and Social Studies*, Vol. 32, September 1964, pp. 261-289.

Shepherd¹³⁷ refers to availability of four approaches to analyse the problem for financial policy of public enterprise. Thus public enterprises may have a straight "commercial" approach and seek profit maximisation or a straight "social" approach and violate commercial guidelines if economic and social conditions so warrant. Public enterprises may also follow an approach of combining social and economic considerations which may be discussed, isolated and duly accounted for. Another approach may be in seeking an integration among the government policies for promoting adjustment, growth, technical advance and equitable distribution. It is not easy to strike an ideal equilibrium amidst a myriad of interests that are very often contradictory. A flexibility is warranted. A quantification of social and economic costs and benefits¹³⁸, wherever possible, would help siphon off the subjective elements. But the benefits of specific policies in government cannot always be measured in narrow financial accounting terms¹³⁹. The basic dilemma that confronts government

137 W.G. Shepherd, *Prices and Investments in Public Firms: The British Fuel Industries*, Unpublished Ph.D. dissertation, Yale University, 1963. W.G. Shepherd, "British Nationalized Industry Performance and Policy", *Yale Economic Essays*, 1964, pp. 183-221.

138 See, M.H.N. Awad, *Nationalization of Production State of Petroleum Industry in the Middle East - Economic Cost Benefit Analysis*. Unpublished Ph.D. dissertation, University of Colorado, 1974. Awad attempted to make out a case for the use of Cost-Benefit analysis as a methodology to examine the performance of nationalisation policy treating nationalisation as an "investment project". Awad however encountered limitations of the Cost Benefit Analysis such as "non-commensurability of intangible benefits and cost and involvement of subjective value judgement".

139 Strachey had as early in 1953 drawn attention to the problems of such an approach. He wrote: "But to narrow the argument to the assertion that nationalization may be expected to increase the efficiency of this or that industry is to overlook the whole indispensable process of social reconstruction which faces us. To argue so would be to degrade the cause of socialism to the calculation of the cost accountant". Strachey, *op. cit.*

in owning and operating nationalised enterprises is to link the financial objectives of business of nationalised enterprises with the social, political and economic objectives of the government. It is, therefore, necessary to identify the financial objectives on the one hand and social, political and economic objectives on the other along with their quantification in measurable terms. This would serve to answer fundamental questions concerning the outlook for the future of the strategy and criteria of operation and performance evaluation.

Nationalisation in the Developing Nations

Expansion of the public sector in the developing nations especially those who were previously under colonial domination is regarded as an assertion of their economic independence¹⁴⁰ and self-reliance in step with the attainment of political sovereignty¹⁴¹. The developing nations find in nationalisation a convenient means to enlarge their public sector through expropriation of indigenous private enterprise and of foreign investment within their territorial limits. As a result many of the developing nations have resorted to nationalisation over the years since the 1950's. These developing nations have shared common experiences. For instance, they were ruled or dominated by some foreign colonial power and, their national sovereignty was of recent origin. As a corollary to the historical process of formation of the capitalistic economic system, these former colonies were unable to make sufficient progress in economic and social development. Their societies remained industrially backward and capital

140 A. Leykovsky, *Role of the Public Sector in Achieving Economic Independence*, (Moscow: Novosti Press Agency: 1973).

141 S.C. Jain, "Nationalization in Tanzania Some Legal Aspects", *African Quarterly*, Vol. 9 (1969), pp. 141-148.

formation was retarded due to uninterrupted drain of their resources to their colonial rulers. With the termination of colonial domination and achievement of political independence these countries find themselves ushered into an era of rising expectations. The demands of modernisation have tended to upset the traditional institutions and values involving a complex interaction of their psychological, political, social, economic and cultural motivations¹⁴². Extreme poverty and the awareness of the sharp contrast in economic development with the rich nations stimulate them to seek a short-cut. In their quest for an approach to development¹⁴³ the developing nations seem to have been keeping their options open. They have a deep distrust of capitalism because of the legacy of the colonial exploitations. They have also been moved by the demonstration effects of socialist economic development¹⁴⁴. But in their attempt to solve economic and social problems, they have been hesitant and cautious in adopting any specific ideology¹⁴⁵. Instead the leaders of these nations have tried to synthesize the elements of different ideologies as seem most relevant and appear most appealing to the majority of the people simultaneously being in general tune with the overall societal values. Attempt to accommodate conflicting social views in these countries are reflected in the different ideological models of socialism such as the "African Socialism" of Senghor, the "democratic collectivism" of Nehru, the "communitarianism"

142 See, Paul E. Sigmund, ed. *The Ideologies of the Developing Nations*, (New York: Praeger, 1964), especially, "Introduction" pp. 2-40.

143 See, Willard A. Belling & George O. Totten, eds. *Developing Nations Quest for a Model*, (New York: Van Nostrand, 1970).

144 John H. Kaunsky, "The Appeal of Communist Models in Underdeveloped Countries" in *Ibid.*, pp. 101-115.

145 Sigmund, *op. cit.*

of Nyerere, the "communocracy" of Sekou Toure, the "Humanism" of Kenneth Kaunda, the "Nkrumaism" in Ghana, the "democratic, socialist, co-operative democracy" of Nasser or "Arab Socialism" in the Arab world and "Islamic Socialism" in many of the Islamic countries the world over¹⁴⁶.

The governments of these developing countries tend to adopt elements of the policies associated with the type of regimes which have been branded as "New-Deal Regimes"¹⁴⁷. These developing nations take cognizance of the fact that the possibility of successfully pursuing the classical capitalist path is quite remote¹⁴⁸. They also realise that to accelerate the rate of growth and economic development the State must play a dominant and active role. Their socialist aspirations consist of social equality and rapid economic development. Conflicting interests of the divergent social groups are sought to be resolved through democratic process. This pious intention is, however, often frustrated by a military take over and suspension of the representative government¹⁴⁹. Socialisation of land is yet to be attempted and confiscation of property is not generally resorted to. The policies pursued by these developing countries are interventionist in character and include protection, public expenditure and planning, which are later regarded as important adjuncts to the national

146 *Ibid.* pp. 3-22. Also see Ehud Spinzak, "African Traditional Socialism - A Semantic Analysis of Political Ideology", *Journal of Modern African Studies*, Vol. 11, 1973, pp. 629-647. James A. McCain, "Ideology in Africa: Some Perceptual Types", *African Studies Review*, Vol. 18, April 1975, pp. 61-87.

147 Paul Baran, *The Political Economy of Growth*, (New York: Monthly Review Press, 1957).

148 S.P. Sinha, *New Nations and the Law of Nations*, (Leiden, 1967).

149 See for example, Morris Janowitz, *The Military in the Political Development of New Nations*, (Chicago: The University of Chicago Press, 1964).

development strategy. But it is in nationalisation that most of these regimes find an opportunity, particularly if such nationalisation involves foreign investment, to ascribe a radical and anti-imperial image. Nationalisation in such circumstances also help to relieve the inherited burdens from the colonial period. By taking over foreign investments the potential dangers of external control over the strategic segments of their economies are extinguished while similar action taken in respect of indigenous capital help to dismantle the combine of the domestic capital with multi-national corporations. Above all, as the culmination of a long process of political and economic, development¹⁵⁰ nationalisation is regarded as an integral part of the search for new forms of economic life not only in the more developed Western and socialist nations but also in the developing nations.

Summary Observation

Nationalisation, it appears, is a transfer of any property to public ownership and control for a public purpose and effected as a matter of national policy. Since property relationship has been traditionally considered as pivotal in human society, its purported infringement is deemed as precursor to profound social changes. After nationalisation has taken place in many developing as well as developed countries enthusiasm for it has waned considerably as the expectations remain greatly unfulfilled. While supporters of nationalisation declare denationalisation as a retrograde step, socially, politically and economically¹⁵¹ considerable forces tend to consolidate power with a view to undo nationalisation. It is argued that the declared objectives

150 See, Johnson, *op. cit.*

151 Langer, *op. cit.*

of nationalisation are not often achieved. On the other hand, nationalisation takes place in many cases as pragmatic responses to specific practical needs. As a whole, therefore, nationalisation needs to be judged on a socially acceptable criteria based on general consensus and free from rhetoric and not primarily on ideological grounds. Indeed, nationalisation has been successful in ideologically uncongenial environments as well. While it must not be considered as something good in itself it is an outcome of a realisation of an unsatisfactory state of economic growth. It is a legitimate instrument of modern government but by itself it cannot solve the problems. As Jewkes stated:

the economic system is not a machine but an environment, a set of relations between human agents and natural forces of such infinite and organic intricacy that we possess and probably continue to possess, only imperfect understanding of it.¹⁵²

In a discussion of nationalisation policy one may not remain oblivious of this possible truism. In the next chapter, therefore, the political, social, economic and environmental background of the Bangladesh experience in nationalisation will be discussed.

¹⁵² John Jewkes, *Public and Private Enterprise*, (London: Routledge & Kegan Paul Ltd., 1966), p. 89.

CHAPTER II

THE BACKGROUND OF BANGLADESH NATIONALISATION

Industrial development can hardly be conceived as solely an economic phenomenon. As with other fields of economic development, political, social, demographic, technological and cultural factors are important concomitants of industrial development. The problems and causes of retardation of an economy lie deep in the above factors. But as Hagen¹ points out this observation alone is of little value unless the roots of the resultant structures are traced. Empirical evidences in developing countries suggest a high degree of correlation between the level of economic development and the nature of political structure². Attitudes, values, social structure and political organisations have great impact on the level of development attained in a society. In many of the Third World countries, the humiliation of colonial legacy and an awareness of economic and industrial backwardness, for example, help breed radical movements. Political repression, subjugation, discrimination and economic exploitations associated with an authoritarian or powerful colonial regime which draws its strength from the bayonet, do not go unchallenged for long. The mass of the people become frustrated, bitter and restive, and find expression in violence and extremism. Gyration first around the political aspirations to

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- 1 Everett E. Hagen, "Framework for analyzing economic and political change" in *Development of the Emerging Countries: An Agenda for Research*, Robert E. Ashe et al eds., (Washington: The Brookings Institution, 1962), pp. 1-38.
 - 2 Karl de Schweinitz, *Industrialization and Democracy Economic Necessities and Political Possibilities*, (New York: The Free Press of Glencoe, 1964), p. 35; also see J.J. Spengler, "Economic Development: Political Preconditions and Political Consequences", *The Journal of Politics*, Vol. 22, (1960), pp. 387-416.

become independent of the colonial rule the dissatisfaction is transformed into a struggle between the exploiter and the exploited - the have and the have-nots. These developing nations desire to change and mould the inherited political, economic and social institutions to maximise their own welfare. Elimination of the vestiges of colonial exploitation of the economy is realised as equally important to the attainment of political freedom.

Industrial policy³ as Dell⁴ mentions, is a collection of varied responses to the different kinds of political responsibility imposed on government by changing requirement and circumstances of industry. Observing the Bangladesh experience it seems that the responses of the government towards industrial policy varied according to its political character. The British colonial power (1757-1947) pursued a laissez faire policy in respect of industrial development and remained generally content with its regulatory and administrative role. The Pakistani administration (1947-71) in its exploitative character adopted a favoured private enterprise policy and utilised its regulatory and administrative instruments to the same end. The government assumed some promotional role in public industrial development but public sector

3 The concept of industrial policy is regarded as a recent addition to the more traditional group of economic policy instruments which fall into categories such as fiscal, monetary, commercial, transport or manpower policy. For definitions, aims and instruments of industrial policy in liberal economies, see for example, *The Aims and Instruments of Industrial Policy*, (Paris: Organisation for Economic Co-operation and Development, 1975), pp. 7-16 & pp. 127-133. For discussions regarding the developing countries see for example, Albert Winsemius and John A. Pincus eds., *Methods of Industrial Development with Special Reference to Less Developed Areas*, (Paris: Organisation for Economic Co-operation and Development, 1962), pp. 79-92 & pp. 323-333.

4 Edmund Dell, *Political Responsibility and Industry*, (London: George Allen & Unwin Ltd., 1975), pp. 32-52.

was not conceived as the dominant sector but as supplementary to the private sector. In the independent State of Bangladesh (post-1971) government declared a dominant public sector policy and assumed a direct, positive and pervasive role in industrial activity. It resorted to radical means of converting the private enterprise into public enterprise through nationalisation. This was as profound a change for a subsistence level society with traditional values of inalienable rights of private property as in any Western developed capitalist nation. An attempt is made below to explore the compulsions and the factors responsible for initiating such a pervasive process of change in attitudes, values, philosophies and policies of the people of Bangladesh. In this, the relevant aspects of their political subservience, economic exploitation, discrimination in industrial policy, entrepreneurial vacuum and interaction of divergent values in the society will be examined. But firstly, the evolution of the public sector and the growth of a large number of public enterprises in the economy of Bangladesh will be traced.

Evolution of the Public Sector

Public sector of which nationalisation may be regarded, among other things, a means of its expansion, may claim some antiquity in Bangladesh. Historically, even before the advent of the British rule, the Crown used to patronise and maintain some forms of State undertakings, though with limited purpose of meeting the demands of the State and the royal family⁵. Primarily oriented towards regulatory and administrative roles the British colonial government introduced a

5 B.B. Misra, *The Indian Middle Classes*, (London: Oxford University Press, 1961), p. 40.

postal system in 1766 and set up telegraph lines in 1851. Railways, initially starting as private companies, became major State concerns as they were considered strategically important. The public utilities that came to be developed in so far as they existed followed the ownership pattern in the metropolitan economy in Britain. The public sector during the British period was limited in its concern for providing public goods and services to post, telegraph and telephones, roads and railways, education and health, some banking services and manufacture of defence equipment, arms and ammunitions. The government activities were largely dictated by the needs of the colonial rulers. In the words of Asoka Mehta the role of the government in economic activities was "more a reflex action than a policy decision"⁶.

After the British departed the report of the Economic Appraisal Committee⁷, constituted during the Pakistani administration in 1952, visualized the government as administrator and not as an entrepreneur. The main strategy in the industrial policy statement was to encourage the private sector. The industrial policy in 1948 of the Pakistani administration limited public ownership to a few specified fields⁸. This policy reflected the view that monopolies and public utilities

6 Asoka Mehta, "Growth of the Public Sector as the dominant Sector" in C.K. Vakil ed., *Industrial Development in India: Policy and Problems*, (New Delhi: Orient Longman, 1973), p. 16. The Indian Industrial Commission constituted in 1915 envisaged the main activities of the government in the industrial field as confined only to research, education, intelligence, direct assistance and purchase of stores. It was the war needs which brought the government close to the organised industry. See A.G. Clow, *The State and Industry*, (Calcutta: Government of India Publications Branch, 1928).

7 *The Report of the Economic Appraisal Committee*, (Karachi: Government of Pakistan Press, 1952).

8 Government of Pakistan, Planning Commission, *Industrial Policy of the Government of Pakistan*, (Karachi: Government of Pakistan Press, 1961), pp. 1-5.

were peculiarly suitable for public ownership. Communication and transport services such as posts, telegraph, telephone, wireless, broadcasting, railways and air transport were to be owned and operated by the government. The government also reserved the rights to take over any industry for reasons of security and welfare of the State. The private sector was given full scope to operate with the exception of three specified fields, namely, (i) arms and ammunitions, (ii) generation of hydro-electricity and (iii) manufacture of railway wagons, telephones and wireless apparatus. The government could set up a limited number of industrial units more as a measure for attracting private enterprises if adequate private investment did not materialise in any particular industry of national importance. The industrial policy statement in 1959 pledged⁹ to give maximum scope to private enterprise in the development of the resources of the country within the framework of the national five year plans. The general provision that the government might take over any industry considered essential or vital was deleted from the policy statement. However, the government could establish essential industries through specially constituted public corporations where private sector was hesitant to show up. On the other hand, the idea persisted throughout Pakistani administration that the State should ultimately disinvest the running public industrial enterprises set up by the government though such undertakings involved long gestation period.

Adoption of a planned development process within the framework of the national plans was symbolic of an increasingly pronounced role of the government in the economy. But each of the successive five

9 *Ibid.*, pp. 8-11.

year plan documents of the Pakistani administration gave more emphasis to investment in private sector over public expenditure. The aggregate allocations for the private sector industrial development as reflected in the four five year plan documents during Pakistan period show that it was nearly double the aggregate allocation for public sector industries¹⁰. The first planned approach to industrial development in Bangladesh was embodied in the Six Year Development Plan¹¹ of Pakistan launched in 1950. In the Two Year Priority Programme¹², launched in 1951 specific projects were included which were to be executed by the government in association with private enterprise, if possible and without private enterprise, if necessary. The First Five Year Plan 1955-60¹³ in Pakistan period advocated a reliance on private enterprise for development as it would stimulate entrepreneurship, result in better management and promote innovation and invention. The public sector investment in industry was directed to areas where private enterprise was not attracted because of technical complexity, high capital requirements or relatively low profitability or lack of facilities due to geographical factors. This basic reliance on private enterprise did not change with the launching of the Second Five Year Plan of Pakistan

10 See, Government of Pakistan, Planning Commission, *The Third Five Year Plan, 1965-70*, (Karachi: Government Press, 1965), pp. 103-4 & p. 4; Government of Pakistan, Planning Commission, *The Fourth Five Year Plan, 1970-75*, (Islamabad: Government Press, 1970), pp. 27-8 & p. 37.

11 *Six Year Development Plan, 1950-56* was, in fact, scheduled to go into effect from the middle of 1951. It was merely a collection of projects and a statement of intents and possibilities.

12 *Two Year Priority Plan* was drawn up within the framework of the Six Year Plan.

13 Government of Pakistan, National Planning Board, *The First Five Year Plan, 1955-60*, (Karachi: Government of Pakistan Press, 1957), pp. 86-7.

for 1960-65 which laid down the basic principles for public sector industries as follows:

The cardinal principle is that there should be no public industrial sector in the sense of reservation of complete industries for public enterprise but that the Government should remain generally responsible for promoting all industries by providing the required facilities and should directly participate only in these enterprises which are essential for overall development and where private capital is not forthcoming or high considerations of national security intervene.¹⁴

The Second Plan recommended measures for the guidance and encouragement of private investment such as effective operation of an investment promotion bureau to help solving the problem for investors, publication of investment schedule with a view to making it easier for private investment to obtain foreign exchange component of the investment, rationalisation of industrial legislation, simplification for import of machinery and raw materials, arrangements of financial credit and so on. The Third Five Year Plan 1965-70 was more explicit in its orientation towards private enterprise. The Third Plan left the primary responsibility of developing directly productive investment to the private sector. It envisaged policies which would undertake to stimulate the private sector industries through provisions of industrial estates, improved physical infrastructure, institutional financing, increased training, simplified procedures and adequate flow of equity capital through participation of public sector agencies¹⁵. The Plan viewed public sector investment as supplementary and not competitive with the private investment and confined to high risk low profit areas. The

14 Government of Pakistan, Planning Commission, *The Second Five Year Plan, 1960-65*, (Karachi: Government of Pakistan Press, 1960), pp. 225-6.

15 Government of Pakistan, Planning Commission, *The Third Five Year Plan, 1970-75*, (Karachi: Government Press, 1965), pp. 99-109.

Fourth Five Year Plan 1970-75 of Pakistan demonstrated the previous reliance on the private investment for the bulk of industrial investment but it noted the need for a change in strategy as the dimensions of development changed as did the climate of expectations¹⁶. As it noted during the previous decades

the basic objective of national economic policy was to seek maximum possible economic growth through encouragement of private enterprise backed by provision of social, physical and institutional infrastructure by government.¹⁷

In this relentless pursuit of economic growth the desired goal of equitable distribution of incomes was ignored. The Fourth Plan took note of resentment on the question of concentration of industrial incomes and wealth and abuses of the capitalist system. It considered the option regarding nationalisation and realised that it could not be divorced from political framework and that it could not be purely an economic issue. The question of nationalisation was therefore, to be left as an open question for the time being. Instead, the Plan called for a new industrial policy that would define the categories of industries for operation by the public sector, mixed public-private sector and private sector so that the question of public and private ownership was settled¹⁸. The public sector would have to play larger role than in the past. The private sector, on the other hand, with its role reserved in a mixed economy must abide by new rules of game which would recognise social responsibilities on the part of the private sector as well¹⁹.

16 Government of Pakistan, Planning Commission, *The Fourth Five Year Plan, 1970-75*, (Islamabad: Government Press, 1970), p. 12.

17 *Ibid.*, p. 11.

18 *Ibid.*, p. 16-17.

19 *Ibid.*, pp. 17-18.

Increasing rate of public expenditures reflected an expansion of the public sector within the economy. Thus public expenditure of the central government administration increased nearly six times during 1950 and 1970 while the public expenditure of the then provincial administration in Bangladesh increased by nearly 13 times during the corresponding period²⁰. Public sector expenditure in development was nearly double the development expenditure in the private sector²¹. Public expenditure as proportion of Gross Domestic Product also showed a rising trend²².

Utilisation of the large public investments was facilitated through the operation of various public enterprises set up from time to time. The Economic Appraisal Committee in 1952 pointed out the need for State trading in some essential consumer goods and public sector operation in commercial warehousing, jute trade, agricultural development, transport, communication, industrial financing, banking and insurance. Each of Pakistan's five year plans set the tone for

20 Results arrived at from computation of data given in the following sources: Government of Pakistan, Ministry of Finance, *Pakistan Economic Survey 1970-71*, (Islamabad: Government Press, 1971), pp. 94-95, pp. 100-103 & pp. 111; Tables 43, 45, 47 & 51.

21 Aggregate of development expenditure in Bangladesh during the period of 1950-70 was -
 Public Sector : Rupees 20,639 million
 Private Sector : Rupees 10,934 million.
 Source: *Ibid.*

22 Public Expenditure in relation to GDP of Bangladesh:

<u>Year</u>	<u>Expenditure as percentage of provincial Gross Domestic Product</u>
1949-50	1.4
1954-55	2.1
1959-60	2.5
1964-65	5.8
1969-70	9.3

Source: *Ibid.*; *Pakistan Third Plan, op. cit.*, p. 11; and Government of Pakistan, Ministry of Finance, *Pakistan Economic Survey, 1969-70*, (Islamabad: Government Press, 1970).

expansion of the public sector and recommended establishment of some public enterprises in various sectors mainly with a view to implement the development projects. The First Plan in 1955 noted the need for setting up public corporations in industrial credit and finance, agricultural development, shipping and operation of ports. Pakistan's Second Plan sought to define public, semi-public and private sector in the economy. The Third Plan attempted to limit the activities of the public sector to building infrastructure, ownership of essential services and monopolies or on reasons of scale. Public sector activities were to consist in high risk capital intensive and technologically complex areas and to areas where otherwise private ownership would enhance concentration of economic power. The Fourth Pakistan Plan also relied on public sector agencies for implementation of development programmes. By the time it was launched, which coincided with the dissociation of Bangladesh from Pakistan, there came to exist a large number of public enterprises in different fields of activities in the country.

At the time of Liberation, public enterprises functioned in respect of central banking, commercial banking, industrial financing, house building loans, agricultural credit, insurance business etc. Public enterprises existed in the railway communications, road transport, airlines and inland and marine shipping. Public enterprises operated in the fields of jute marketing and foreign trade. There were state undertakings in as diverse fields as agricultural development and extension services, fisheries development, regulation of inland water transport, aviation, water and sewerage services in major cities, power generation, flood control and irrigation, city improvement, regulation of tea plantation and processing, promotion of tourism

to film industry development. There were autonomous and semi-autonomous bodies in the areas of atomic energy research, rural development, industrial and scientific research etc. The universities were mostly dependent on government grants and were effectively as much public sector organisations as other public sector agencies. In the industrial field there were public corporations either directly operating in the manufacturing process or engaged in promotional activities. The role of the Pakistan Industrial Development Corporation (hereafter PIDC) in this category was of pivotal and singular importance in the industrialisation process in Bangladesh.

Policies pursued by the Pakistani administration were, however biased towards fostering private enterprises in the industrial field. This strategy did not help to alleviate the slow growth in Bangladesh. A class of Bengali industrial entrepreneurs did not emerge²³. The Pakistan government set up the PIDC to secure satisfactory industrial growth and to undertake industrial investment where the private sector

23 . Instead, concentration of economic power in a few minority Muslim commercial community based in West Pakistan province occurred. The policies leading to such concentration is now well documented. See for example, Lawrence J. White, *Industrial Concentration and Economic Power in Pakistan*, (Princeton: University Press, 1974); Stephen R. Lewis, *Economic Policy and Industrial Growth in Pakistan*, (London: George Allen & Unwin Ltd., 1969); Sergy Levin, "The Upper Bourgeoisie From the Muslim Commercial Community of Memons in Pakistan 1947-71", *Asian Survey*, Vol. 14 (1974), pp. 231-43. For an analysis of the slow growth of the indigenous entrepreneurship in Bangladesh, see Hanna Papanek, "Entrepreneurship in East Pakistan" in R. and Mary J. Beech, eds. *Bengal Change in Continuity*, (Michigan: State University, Asian Studies Center, 1974), pp. 119-;50. About the lack of industrial and commercial entrepreneurship among the middle class Bengalis, Kling has argued that this class is at bottom a frustrated entrepreneur. See Blair B. Kling, "Entrepreneurship and Regional Identity in Bengal:", David Kopf, ed., *Bengal Regional Identity*, (East Lansing: Michigan State University, Asian Studies Center, 1969), pp. 75-86.

might not have evinced interest. The avowed policy was to supplement and not to substitute the private enterprises. The PIDC was charged with assuming leadership and initiative in the promotion of industries. The emphasis was not on ownership of industries and industries set up by PIDC could be disinvested as soon as the shyness of private capital was overcome. By the time it was bifurcated in 1962 - one each in West Pakistan and Bangladesh region, PIDC investments came to account for more than 16 per cent of the total industrial investment in the united Pakistan²⁴. The PIDC concentrated in pioneering industries requiring large capital and management of high order as fertilizer plants, heavy engineering, paper, machine tools and ship-building. Completed projects included jute mills, sugar mills, paper and board mills, fertilizer factories, cotton textile mills, ship-building yards and chemical and pharmaceutical plants²⁵.

The PIDC stimulated industrial growth through sponsoring association between public and private sector or through some deliberate concessions or simply by public sector development. The move into large scale industrial ventures by a new Bengali entrepreneurial class was made possible through the promotion of PIDC. Special financial arrangements were designed to promote private entrepreneurship amongst the Bengalis. Many of the Bengali entrepreneurs could do with contributing much less than the sponsor's share in setting up a mill. The PIDC not only subscribed part of the equity but also made arrangements

24 Gustav F. Papanek, *Pakistan's Development Social Goals and Private Incentives*, (Cambridge, Massachusetts: Harvard University Press, 1967), p. 96.

25 Bangladesh Industrial Development Corporation, *BIDC In Figures*, (Dacca: Planning Division, BIDC, 1972), p. 44 & pp. 108-189.

for providing foreign exchange.

The emergence of Bangladesh witnessed a spurt in public sector organisations. The new government in independent Bangladesh had to take over, as successors, various government and public sector organisations which existed earlier. But more significantly, government faced with the problems of caretaking a substantial number of industrial enterprises, commercial concerns, financial institutions, transport companies and other properties abandoned by the non-local owners who left Bangladesh at the time of the Liberation War²⁶. The government took over these abandoned enterprises and properties and nationalised some parts of the industrial financial and commercial sectors of the economy. A number of new public sector organisations were created. The shares held by the public of the State Bank of Pakistan were taken over by the government as well as all assets etc., and Bangladesh Bank was established to function as the central bank²⁷. Entire capital vested in the government. The government nationalised twelve commercial banks owned by both Bengali and Pakistani shareholders and set up six new banking organisations with the entire capital of each bank vested in the government²⁸. Certain institutional readjustments were made in respect of the specialised financial institutions.

26 Generally, non-local owners who had earlier immigrated into Bangladesh speaking languages other than Bengali or who had their principal financial interests shielded in West Pakistan were regarded as aliens and enemy collaborators.

27 The Bangladesh Bank was established under the Acting President's Order No. 2 of 1971 known as the Bangladesh Bank (Temporary) Order, 1971.

28 Government of Bangladesh, Ministry of Law and Parliamentary Affairs, "President's Order No. 26 of 1972 The Bangladesh Banks (Nationalisation Order) 1972", *The Bangladesh Gazette Extraordinary*, March 26, 1972.

New corporations were established or converted from the old ones as inherited in the public sector. The Bangladesh House Building Finance Corporation was set up in place of the Pakistan House Building Finance Corporation operating in Bangladesh but the entire authorised capital was subscribed by the government²⁹. The Industrial Development Bank of Pakistan and the Equity Participation Fund were merged to create the Bangladesh Shilpa Bank (hereafter BSB) with the entire authorised capital subscribed by the government³⁰. Likewise the Pakistan Industrial Credit and Investment Corporation, the Investment Corporation of Pakistan and the National Investment Trust were merged to set up the Bangladesh Shilpa Rin Sangstha (hereafter BSRS) with its entire authorised capital subscribed by the government³¹. Two controlling public corporations were set up, one each for life insurance and the general insurance business for the nationalised insurance business³². The entire amount of authorised capital was subscribed by the government. Public organisations such as the Agricultural Development Corporation, Agricultural Development Bank, Jute Board, Tea Board, Port Trusts, different city development trusts, Water and Sewerage Authorities, Inland Water and Transport Authority continued their functions as before. Water and Power Development Authority was

29 Government of Bangladesh, Ministry of Law and Parliamentary Affairs, "Acting President's Order of 1972 The Bangladesh (Administration of Financial Institutions) Order, 1972", *The Bangladesh Gazette Extraordinary*, January 7, 1972 and "President's Order No. 7 of 1973 The Bangladesh House Building Finance Corporation Order, 1973", *Ibid.*, February 3, 1973.

30 "President's Order No. 129 of 1972 The Bangladesh Shilpa Bank Order, 1972", *Ibid.*, October 31, 1972.

31 "President's Order No. 128 of 1972 The Bangladesh Shilpa Rin Sangstha, 1972", *Ibid.*

32 "President's Order No. 95 of 1972 The Bangladesh Insurance Nationalisation Order, 1972", *Ibid.*, August 8, 1972.

bifurcated to establish the Water Development Board and the Power Development Board with no authorised capital. New public organisations were set up in agriculture sector such as Cotton Board, Tobacco Board and Horticulture Board. The Trading Corporation of Bangladesh (hereafter TCB) was established to carry on the business of foreign trade. The Consumers' Supplies Corporation was set up mainly as a price stabilisation measure for essential commodities. The jute export trade was nationalised and Bangladesh Jute Export Corporation was created. In the transport sector, Inland Water Transport Corporation was established through the merger of East Pakistan Shipping Corporation and six other private companies engaged in water transport business and abandoned by their non-local owners. The Bangladesh Shipping Corporation was established for operation and development of marine transport services. In the industry sector, government dismantled the PIDC establishment and created ten Sector Corporations to operate the abandoned enterprises with fixed assets of more than Taka 2.5 million, the existing public industrial enterprises from the PIDC establishment and the nationalised industrial enterprises³³. Some abandoned manufacturing enterprises were placed with the newly created public organisations, namely, Freedom Fighters' Welfare Trusts and Sena Kalyan Sangstha while the rest of the abandoned manufacturing enterprises were left to be managed by the government department until disinvested to private buyers or returned to the owner claimants.

In summary, the industrial policy in Bangladesh during Pakistan period consisted mainly in encouraging the private enterprise. The private sector was the dominant sector and the role of the public sector

33 *Industrial Nationalization Order, op. cit.*

was viewed as to supplement the former. After the emergence of independent Bangladesh this strategy was reversed. A very large and more important segment of the industries in the private sector was statutorily transferred to the public sector in addition to retaining those already existing in the public sector. The public sector became dominant and the favoured sector in the industrial field.

Conflicts Within the Polity

The people of Bangladesh, a majority of whom are Muslims were apprehensive of the domination by their Hindu neighbours at the time of independence from the British rule in 1947. They thought that a political separation from the Hindu neighbours would best safeguard their political, social, economic and cultural interests as the Bengali Hindu community held control of land, business, commerce, industries, money lending, civil services, education, legal and other professions. The people of Bangladesh were rural and constituted predominantly an agricultural community. The relationship between the Bengali Hindus and the Muslims provided a classical example of the landlords' exploitation of the peasantry. As a result the Bengali Muslims supported the Pakistan movement and formed a political union with the Muslim majority areas of northwest regions of the United India³⁴. The contradictory and often incompatible characteristics of the people of the two incongruous regions in the newly constituted Muslim State of Pakistan surfaced even before the first flush of independence from

34 By United India is meant the Indian subcontinent under the British rule prior to independence in 1947.

the British rule was over³⁵.

The expectation of the people of Bangladesh that they would have an easy ride over the vacuum created by the mass exodus of the Hindu community from Bangladesh could not be realised. The Bengali Muslims lacked an urban middle class and the aristocratic elements lacked strong economic power. The most important class that emerged came from the petty middle class consisting of small traders, shop keepers, professional people, teachers and clerks³⁶. The economic strength of this class was feeble. There was hardly a rich peasant class or indigenous trading community following migration of the Hindus nor an immigrant trading community willing to be absorbed in the mainstream of the Bengali society. The people of Bangladesh had neither the funds nor the experience to fill the vacuum in the domestic trade of the world's near monopoly of jute supply. There was scant representation of the Bengalis in the higher echelon of the bureaucracy or in the armed forces. The political leaders of the Bengalis specially after the abolition of the Zamindari system³⁷ came primarily from the

35 A great deal of scholarly writing is available about the split between two erstwhile regions of Pakistan. For a bird's eye view account, see M.B. Naqvi, "West Pakistan's Struggle for Power", *South Asian Review*, Vol. 4 (1971), pp. 213-30; M. Anisur Rahman, "East Pakistan: The Roots of Estrangement", *South Asian Review*, Vol. 3 (1971), pp. 235-39; Richard S. Wheeler, *The Politics of Pakistan A Constitutional Quest*, (Ithaca: Cornell University Press, 1970).

36 Richard Nations, "The Economic Structure of Pakistan and Bangladesh" in Robin Blackburn, ed., *Explosions in a Sub-continent*, (London: Penguin, 1975), p. 257. Also see Ramkrishna Mukherjee, "The Social Background of Bangladesh" in Kathleen Gough and Hari P. Sharma, eds. *Imperialism and Revolution in South Asia*, (New York: Monthly Review, 1973), pp. 399-417).

37 The Permanent Settlement Act in 1793 elevated the Hindu rent collectors to the position of the landholders with proprietary right in the soil. These landlords were locally known as zamindars. A majority of the zamindars in Bangladesh belonged to the Hindu community.

families of peasants, shopkeepers, petty government officials, clerks and the like³⁸.

West Pakistan also lacked the middle class. But it had rich landlords who dominated the vast rural expanse. These landlords owned more than 30 per cent of the privately cultivated land and were in a position to extract both feudal rents and capitalist profits from their estates which were cultivated by dependent peasants and wage labourers. These landlords had strong links with the increasingly powerful bureaucracy in Pakistan. West Pakistan inherited a good civil service and a number of officers belonging to the highest category of the civil services were members of the prestigious Indian Civil Service (ICS). The demands of a modern State and the anarchic conditions prevailing after the departure of the British administrators made the bureaucracy based in West Pakistan a most influential element of the power structure during the Pakistan period³⁹. The military drawn almost fully from West Pakistan⁴⁰ became a strong political force. The immigrant trading communities who settled in West Pakistan and later transformed themselves into an industrial capitalist class, maintained close liaison with the bureaucracy. This ensured formulation of economic policies in a way to support their economic interests⁴¹.

38 For a statistical attempt to analyse the social structure in Bangladesh see Y.V. Gankovsky, "The Social Structure of Society in the People's Republic of Bangladesh", *Asian Survey*, Vol. 14 (March, 1974) pp. 220-230.

39 Khalid B. Sayeed, "The Political Role of Pakistan's Civil Service", *Pacific Affairs*, Vol. 31, (June, 1958), pp. 131-46.

40 Richard D. Lambert, "Factors in Bengali Regionalism in Pakistan", *Far Eastern Survey*, (April, 1959), pp. 49-58. For a discussion of the military and the bureaucracy as power groups, see Hamza Alavi, "Army and Bureaucracy in Pakistan", *International Socialist Journal*, Vol. , (March-April, 1966).

41 Papanek, *Pakistan's Development*, *op. cit.*, Hassan N. Gardezi, "Neo-colonial Alliances and the Crisis of Pakistan", in Gough and Sharma, *op. cit.*, pp. 130-43.

As a result not more than 22 families came to control a majority of industrial and financial assets in Pakistan⁴².

The West Pakistani elite group consisting of land based aristocracy, capitalists, higher bureaucracy and the military siezed the power structure in the absence of a similar combine existing in Bangladesh. Thus even in their homeland, the Bengalis could have access only to the middle and lower ranges of economic activities⁴³. The top government commercial and industrial positions were occupied by the West Pakistanis. The decision at the level of the central government was virtually the monopoly of the West Pakistan power elites. As a result all classes of the people of Bangladesh - the proletariat, the peasantry and the petty bourgeoisie came to stand in antagonistic relationship with the West Pakistan power combine⁴⁴. The people of Bangladesh demanded regional autonomy within the framework of a united Pakistan. In their attempts to frustrate the popular wishes of the people of Bangladesh the power elites and the military oligarchy based in West Pakistan applied military forces which ignited the war of Liberation by the people of Bangladesh.

42 White, *Industrial Concentration*, *op. cit.*, pp. 45-85. *Pakistan News Digest*, (Karachi, 15 June, 1970), p. 10. Quoted in Gardezi, *op. cit.* In 1968, 22 families controlled 66 per cent of Pakistan's total industrial capital, 70 per cent of insurance and 80 per cent of banking. These figures were first quoted by the government's own chief economist, Dr. M. Haq. These "robber barons" became so powerful that they could influence government policy and "even to bring about the fall of a Cabinet unresponsive to their pressure". See Talukder Maniruzzaman, "Group Interests in Pakistan Politics 1947-58", *Pacific Affairs*, Vol. 39, Nos. 1 & 2 (1966), pp. 79-98.

43 Mukherjee, *op. cit.*, p. 409.

44 Feroz Ahmed, "The Structural Matrix of The Struggle in Bangladesh", Gough and Sharma, *op. cit.* pp. 419-448.

Within the social structure in Bangladesh the attempts to subjugate the Bengalis by the ruling elites of Pakistan did have divergent effects. The Pakistan oligarchy emulated the British imperial tradition and sought to foster a loyal rural elite class in Bangladesh who had earlier received severe shock from the abolition of the Zamindari system in 1950. The ceiling for land holding was raised in 1961 with retrospective effect⁴⁵. The original landlords if available got back their land up to the revised ceiling of landholding. A new class of rural elite emerged from the "surplus" farmers who owed the existence to various government subsidies and extension service in the form of seeds, fertiliser, irrigation facilities, and agricultural credits etc. The Pakistan ruling elites utilised its mechanism of the institution that was branded as "Basic Democracies", dominated the political scene in the rural areas as well as the national life⁴⁶. An elaborate and subtle mechanism was provided

45 The East Bengal Estate Acquisition and Tenancy Act in 1950 fixed the ceiling of land at 33 acres per head. At the time of Partition in 1947 in Bangladesh 75 per cent of the land, including all the biggest Zamindari holdings, belonged to Hindu Zaminder class, some of them possessing as much as 750,000 acres of land. By 1956 nearly 421 Zamindari holdings were acquired by the government. Thus by 1956 Bangladesh was largely freed from the grip of feudalism. See Maniruzzaman, *op. cit.* The raising of ceiling of landholding in 1961 must be regarded as a move to reverse the situation. For results of 1950 land reform see Azizur Rahman Khan, *The Economy of Bangladesh*, (London: Macmillan, 1972), pp. 38-41 & 128-143.

46 The programme of "Basic Democracies" was introduced by Pakistan's military ruler Ayub Khan. The "Basic Democracies" elected at the grass root level were entrusted with the power and responsibility to run local governments. They also constituted the electoral college for the legislatures and the Presidency under the Ayubian system. The Basic Democrats came almost exclusively from the rural rich class and thus the system institutionalised political hegemony of the rich. See Nations, *op. cit.*, p. 256-7. Rehman Sobhan, *Basic Democracy Work Programme and Rural Development in East Pakistan*, (Dacca: Dacca University, Bureau of Economic Research, 1968).

for transferring the margin of surplus from the rural agricultural sector primarily of Bangladesh to finance urban industries and other development mostly in West Pakistan⁴⁷. The government-induced depressed prices of agricultural products and the absence of credit institutions forced the ordinary peasants into debts and at the mercy of a new money lender class. There was not much outlet for capital investment by the Bengalis and a capitalist relation of production in the rural areas did not develop. The surplus capital was increasingly utilised for money lending, trading, petty leasing or simply hoarding⁴⁸. The rural society tended to become polarised with the affluent farmers and village lenders grabbing land and other means of production and the poor and middle peasants liquidating their means of livelihood.

Simultaneously, the Pakistan ruling elites proceeded to foster a faithful and grateful middle class in the urban areas of Bangladesh. This became necessary to quell the increasing restiveness among the Bengalis for lack of opportunity for the articulate middle class. The carefully nourished Bengali entrepreneurial class⁴⁹, were mostly small businessmen who were awarded construction contracts by the government to help formation of their initial capital. Permits and licences

47 A.H.N. Nuruddin Chewdhury, "Some Reflections on Income Redistribution and Intermediation in Pakistan", *Pakistan Development Review*, Vol. 9, (1969), pp. 95-109. Keith B. Griffin, "Financing Development Plans in Pakistan", *Pakistan Development Review*, Vol. 5, (1965), pp. 601-30.

48 Swadesh R. Bose, "Trends of Real Incomes of Rural Poor in East Pakistan", *Pakistan Development Review*, Vol. 8, (1968), pp. 452-87. Bose study shows the increasing poverty of the rural masses. Sobhan, *op. cit.*, shows increasing accumulation in the hands of a minor segment of the rural population.

49 Rehman Sobhan, "Nationalisation of Industries in Bangladesh: Background and Problems", in *Economic Development of Bangladesh within a Socialist Framework*, E.A.G. Robinson & Keith Griffin, eds. (London: Macmillan, 1974), pp. 182-185.

having ready cash value were issued to a few Bengalis having contacts with influential elements in the ruling groups. Representation of the Bengalis in the central elite civil service went up from only one officer in 1947 to 27 per cent in 1959 and 40 per cent in 1970⁵⁰.

With its rising influence the Bengali middle class was able to extract constitutional commitment to the elimination of disparity in economic and other development between the two regions. The ruling elites of Pakistan found it expedient to keep potential Bengali resentments and opposition docile and under control. But in the milieu of the Bengali society these were belated efforts. As Gankovsky's analysis showed, the society of Bangladesh was characterised by the fact that more than 80 per cent of its economically active population was involved in the traditional-subsistence and small scale commercial structures of the national economy⁵¹. The principal classes and strata of bourgeois society was still in a formative stage.

Economic Exploitation

During the British rule, the people of Bangladesh experienced economic exploitations in two ways. Firstly, as a part of the Indian colony of the British Empire there was a great drain of resources to England in the forms of imposed adverse balance of payments, direct transfer of tax revenue collected in the colony to the metropolitan country, transfer in the shape of so-called home charges, National Debt on accounts such as wars waged by the colonial rulers and famines

50 Abu Abdullah, "The Class Bases of Nationalism: Pakistan and Bangladesh" in Barbara Thomas and Spencer Lavan, eds., *West Bengal and Bangladesh Perspectives from 1972*, (Michigan State University, Asian Studies Center, 1973), p. 265-79.

51 Gankovsky, *Social Structure, op. cit.*

of the past and repatriation of military expenditures of the colonial rulers⁵². Secondly, while the whole of the Indian subcontinent was exploited as a captive market for the British productions, Bangladesh region was relegated to a position of a hinterland vis-a-vis certain other parts of British India⁵³. As a result no major industries were set up in Bangladesh during the British period although it had natural advantages in jute, sugar, tea, tobacco, paper and leather industries. Bangladesh held a monopoly in the production of jute in the world but none of the 106 jute mills in British India was situated in Bangladesh⁵⁴. At the time of the Partition of British India, Bangladesh was one of the most backward regions in terms of economic and industrial progress.

Economic policies pursued during Pakistan period did not much help to alter the disadvantaged position of Bangladesh. It remained

52 Historian K.M. Pannikar writes that the administration which the British established in India was a

"robber state the one object of which was to extract as much as possible from the territories it was supposed to administer".

K.M. Pannikar, *A Survey of Indian History*, (Bombay: Asia Publishing House, 1963), p. 201. Also see, R. Palm Dutt, "The Exploitation of India: A Marxist View", in Martin D. Lewis, ed., *The British in India - Imperialism or Trusteeship?* (Massachusetts: Heath & Co., 1962), pp. 41-52. Romesh Dutt, *The Economic History of India Under Early British Rule*, (London, Routledge & Kegan Paul, 1950) pp. v-xxi. John McLane, "The Drain of Wealth and Indian Nationalism at the turn of the Century", in Tapan Ray Choudhury ed. *Contributions to Indian Economic History*, II (Calcutta: Firma Mukhopadhyaya, 1963), pp. 21-40.

53 According to Nafis Ahmed, "practically all the jute fibre" grown in the Bangladesh region used to feed the jute mills in West Bengal or exported through it until 1947. See, Nafis Ahmed, *An Economic Geography of East Pakistan*, (London: Oxford University Press, 1968) p. 104.

54 *Ibid.*, p. 222. There were 1500 industrial enterprises (with 20 or more workers in each factory) in West Bengal against only 83 in East Bengal in 1945. Figures are from a Government of India publications in 1950 quoted by Mukherjee, *op. cit.*, p. 408.

comparatively less developed vis-a-vis West Pakistan. The rate of increase of the Gross Domestic Product in West Pakistan was much higher than Bangladesh⁵⁵. Differences as regards to the amount of Gross Domestic Product (GDP) and Per Capita Income widened over the years between the two regions. If purchasing power of the currency and the relative price ratios of the two regions are considered including consumption patterns, the disparity in economic development between the two regions becomes more glaring⁵⁶.

The ruling oligarchy of Pakistan manipulated the State power in channelling the surplus of the whole economy in their control⁵⁷. As both the regions were essentially rural economies their strategy involved three tasks: conversion of agrarian surplus into risk capital for industry; control of foreign exchange earned through exports of agricultural products to enable payment for imports and utilisation of

55 *Pakistan Third Plan, op. cit.*, p. 11. Government of Pakistan, Planning Commission, *Report of the Panel of Economists on the Fourth Five Year Plan (1970-75)* (Islamabad: Government of Pakistan Press, 1970), p. 132.

56 Regional disparities between Bangladesh and West Pakistan in different fields are now well researched and documented. The policy of the central government of Pakistan was the prime cause of the widening gap. See Government of East Pakistan, Planning Department, *Economic Disparities Between East and West Pakistan*, (Dacca: Government Press, 1963); Md. Anisur Rahman, *East and West Pakistan: A Problem in the Political Economy of Regional Planning*, (Harvard University Center for International Affairs, 1968); Kabir U. Ahmed, *Break-up of Pakistan: Background & Prospects of Bangladesh*, (London: The Social Science Publishers, 1972) pp. 26-51; Arjun Sen Gupta, "Regional Disparity and Economic Development of Pakistan" in V.K.R.V. Rao, ed., *Bangladesh Economy: Problems and Prospects*, (Delhi: Vikas Publications, 1972) pp. 15-55; Mahbub ul Haq, *The Strategy of Economic Planning*, (Lahore: Oxford University Press, 1963) pp. 52-111; Lewis, *Industrialization and Trade Policies, op. cit.*, Chapter 6; S.A. Akanda, *East Pakistan and Politics of Regionalism*, Unpublished Ph.D. dissertation, University of Denver, 1970).

57 Nations, *op. cit.*, p. 258.

agricultural produce as raw materials for industries⁵⁸. Implementation of this strategy resulted in transfer of about 24 to 48 per cent of the annual income of the agriculture sector during 1960-65 to the industry sector⁵⁹. As during the early years the economy of Pakistan was heavily dependent upon jute exports of Bangladesh the strategy effectively resulted in a transfer of agricultural surplus of Bangladesh to build up import-substitution industries in West Pakistan. In this the ruling elites made good use of two devices in their command: power to determine the foreign exchange rate of the domestic currency and import control mechanism. In allocation of import licence Bangladesh was discriminated against and its share in the vital industrial licences and raw materials did not exceed 30 per cent of such import licences issued⁶⁰. Due to the deliberate over-valuation of the domestic currency the agricultural sector notably jute, received less from exports in exchange of its surrender of foreign currency earned at the rate officially fixed. Ironically, agriculture sector had to pay for the imported products at rates designed to subsidize the industrial sector. The agriculture sector in West Pakistan received 52 per cent of the international market price for its produce during 1950 and 1965 due to the operation of this concealed subsidy to industry⁶¹. But the Bengali cultivators received only 44 per cent of the international market price for their exports⁶². The Bengali

58 *Ibid.*

59 Nuruddin Choudhury, *op. cit.*, p. 99.

60 Stephen Thomas, "Import Licensing and Import Liberalization in Pakistan", *Pakistan Development Review*, Vol. 6, (1966), p. 534.

61 A.R. Khan, "What Has Been Happening to Real Wages in Pakistan", *Pakistan Development Review*, Vol. 7, (1967), pp. 317-347.

62 *Ibid.*

consumers similarly paid prices between 10 and 15 per cent higher than his counterpart in West Pakistan was paying⁶³.

The pattern of economic development was directly influenced through resource allocations. The policies of the central government in Pakistan regarding budgetary expenditures, foreign trade, inter-regional trade and international aid influenced such resource allocations. During the two decades between 1950 and 1970, the aggregate development expenditure in Bangladesh was less than 50 per cent of the aggregate development expenditure in West Pakistan⁶⁴. In this the central government discriminated against Bangladesh. At the regional level the aggregate of the provincial government development expenditure in Bangladesh and West Pakistan was nearly equal⁶⁵. However, the central government expenditure in Bangladesh region was only 28 per cent of the same in West Pakistan⁶⁶. Likewise, Bangladesh received 47 per cent of the aggregate financial allocations in three

63 Abdul Ghafur, "A Comparison of Inter-regional Purchasing Power of Industrial Wages in Pakistan, *Pakistan Development Review*, Vol. 7, (1967), pp. 533-543.

64 Aggregate development expenditure during the period between 1950 and 1970 was:

Sector	Bangladesh	West Pakistan	Total
Public	20639	30827	51466
Private	10934	31986	42920
Aggregate	31573	62813	94386

in million rupees.

P.C. Verma, "Economic Stagnation of Bangladesh", in Rao, *Bangladesh Economy*, *op. cit.*, pp. 56-64. The above figures are based on compilation by Verma from Pakistan Five Year Plan documents, Pakistan Economic Surveys, etc.

65 The aggregate development expenditure by the respective provincial governments in Bangladesh and West Pakistan during 1950-68 period was:

Bangladesh	Rupees 12006 million
West Pakistan	Rupees 13675 million.

Ibid., p. 59.

66 *Ibid.*

Five Year Plans and 53 per cent of the Plan allocations went to West Pakistan⁶⁷. In addition an amount equivalent to nearly one-fourth of the total allocations for Bangladesh in the three Plans was spent on the Indus Basin Project in West Pakistan⁶⁸. No separate funds were correspondingly earmarked for Bangladesh for its flood control projects. The central government also spent an amount that was equivalent to more than 11 per cent of the total allocations in the three Plans for development of the new capital territories. Nearly 94 per cent of this category of public expenditure was utilised in West Pakistan⁶⁹.

The central government expenditure from the Revenue Budget remained tilted in favour of West Pakistan. The expenditures on defence establishments in Pakistan was about 57 per cent of the revenue budget during the two decades.⁷⁰ More than 90 per cent of the defence expenditures was spent in West Pakistan⁷¹. The actual estimates in the Annual Budgets revealed that the central expenditures were diverted to West Pakistan in a proportion larger than its contribution to the central revenues⁷².

67 Planned expenditure during the period between 1955 and 1970 under the three Five Year Plans was: in million rupees

Bangladesh	38571
West Pakistan	43060

Source: The Five Year Plans of Pakistan.

68 An amount of Rupees 9046 million was spent on the Indus Basin Replacement Project in West Pakistan which was outside the scope of the Five Year Plan allocations.

69 An amount of Rupees 8700 million was spent for development of capital territories located in West Pakistan. The central government spent only Rupees 574 million for development of the so-called "Second Capital" in Bangladesh region.

70 *Pakistan Economic Survey 1970-71, op. cit.* pp. 94-5.

71 Feroz Ahmed, *op. cit.* p. 129.

72 Bangladesh provided 60 per cent of the total revenue of the central government but received only about 25 per cent for its expenditure. West Pakistan, on the other hand provided 40 per cent for its expenditure. See, A Group of Scholars in Vienna, "Why Bangladesh?" *Bangladesh Documents, op. cit.*, p. 16.

The financing of the development plans was heavily supported through foreign economic aid which met 33 per cent of the total financial requirements of the three Plans during 1955-1970⁷³. The manner in which the foreign economic aid was utilised and disbursed helped to further widen the disparity in economic development between the two regions. Bangladesh received only 20 per cent of foreign exchange out of the total availability for the whole of Pakistan and only 4 per cent of foreign aid excluding U.S. Aid⁷⁴. Only 34 per cent of total U.S. Aid for the whole of Pakistan was received by Bangladesh⁷⁵.

In foreign trade, during the period 1947-1970, the exports of Bangladesh exceeded the exports of West Pakistan at 54:46 ratio⁷⁶. During the same period Bangladesh earned more foreign exchange than West Pakistan in foreign trade but the value of its aggregate imports was only 45 per cent of the total value of the goods imported by West Pakistan⁷⁷. Due to the control exerted by the Central Government Bangladesh could not import proportionate to its exports earnings. West Pakistan, however, was allowed to import more than double its due share according to her exports⁷⁸. Industrial projects could not be

73 Feroz Ahmed, *op. cit.*, p. 127. Foreign economic aid provided 55 per cent of Pakistan's First Plan, 50 per cent of its Second Plan and 26 per cent of the Third Plan.

74 *Bangladesh Documents, op. cit.*, p. 17.

75 *Ibid.*, p. 17.

76 Verma, *op. cit.*, p. 60. During 1950-70 period exports abroad were:
 From Bangladesh Rupees 23303 million
 From West Pakistan Rupees 19476 million

77 *Ibid.*, p. 61. During the same period imports were:
 To Bangladesh Rupees 19261 million
 To West Pakistan Rupees 41918 million

78 Imports by West Pakistan Rupees 41918 million
 Exports by West Pakistan Rupees 19476 million

implemented in Bangladesh owing to shortage in foreign exchange.

Bangladesh was exploited as a captive market for the manufactures of West Pakistan. On account of inter-regional trade between Bangladesh and West Pakistan during 1948-1970 the latter had a net aggregate favourable balance of trade⁷⁹. The pattern of this inter-regional trade was discriminatory against the interests of Bangladesh. Bangladesh imported high cost inferior manufactures from West Pakistan but the latter imported primary products such as wood, timber, spices, betelnuts and manufactures like jute goods, paper and matches from Bangladesh. The cotton textiles of West Pakistan faced a stiff competition in international markets but found a captive market in Bangladesh. On the contrary Bangladesh had to drastically reduce its international exports of tea to meet domestic consumption of West Pakistan. Some attempts have been made to estimate the transfer of resources from Bangladesh to West Pakistan during 1947-1970 period. Accordingly, if Bangladesh was to be refunded its resources transferred during 1947-69 period, about 65 per cent of the entire value of Gross National Product (GNP) generated in West Pakistan in 1969-70 would be needed to effect the same and this "net liability of Pakistan to Bangladesh" was equivalent to nearly 86 per cent of GNP of Bangladesh in the same year⁸⁰. This drain of Bangladesh resources in favour of West

79 *Economic Survey 1970-71, op. cit.*, p. 58, Table 27. The total imports of West Pakistan from Bangladesh during the period amounted to Rupees 13180 million. The total exports of West Pakistan to Bangladesh were Rupees 17086 million.

80 Faaland and Parkinson estimated that "Bangladesh has a claim on Pakistan equivalent to nearly U.S. \$4,000 million". This is equal to Rupees 19,000 million at pre-1972 rates. See, Just Faaland and J.R. Parkinson, *Bangladesh The Test Case of Development*, (Boulder, Colorado: Westview Press, 1976), p. 191. The GNP of the two regions in 1969-70 was:

Bangladesh	Rupees 23,119 million
West Pakistan	Rupees 31,156 million

(continued over)

Pakistan was undoubtedly one of the major factors contributing to a slower rate of growth in GNP in Bangladesh as compared to its counterpart⁸¹. Bangladesh thus suffered a most archaic form of discrimination and exploitation during its association with Pakistan. Lopsided economic policies and unending avarice of the ruling elites of Pakistan reduced Bangladesh in a client colony and ensured that Bangladesh remained a hinterland as before.

This strategy of financing economic development through transferring resources from the poorer section of the economy resulted in high social cost. The income redistribution effected led to an absolute fall in the real income of the poorer section of the community - the industrial workers, agricultural labourers and the rural population generally⁸². The industrial policies pursued by the Pakistani administration forced an extraction of resources from the traditional sector to a relatively few privileged sections of the community, such as businessmen, industrialists, salary earners, professionals, urban rentiers and anti-social elements such as smugglers, profiteers and corrupt officials.

80 (Continued) *Report of the Panel*, *op. cit.* p. 132. Another estimate (Ahmad, *Break-up*, *op. cit.*) puts the amount of the "net transfer of real resources" from Bangladesh to West Pakistan at Rupees 31,120 million over the entire period. This amount is almost equal to the GNP of West Pakistan in 1969-70.

81 GNP of Bangladesh and West Pakistan at 1959-60 *Constant Factor Cost* (Rupees in millions)

	<u>1950</u>	<u>1960</u>	<u>1970</u>
West Pakistan	12,106	16,494	31,157
Bangladesh	12,360	14,945	23,119

Source: *Pakistan Third Plan*, *op. cit.* p. 11.
Report of the Panel, *op. cit.*

82 The way this was effected may be seen in Keith Griffin and A.R. Khan, eds. *Growth and Inequality in Pakistan*, (London: Macmillan, 1970); Khan, *Wages*, *op. cit.*, Ghafur, *op. cit.*

Disparity in Industrial Development

At Partition Bangladesh inherited a legacy of industrial backwardness that dated from the beginning of modern industrial era in British India. Bangladesh had only about 11 per cent of the total number of industrial establishments located in the British Bengal in the 1910's⁸³ and 2 per cent of the total number of industrial establishments in British India⁸⁴. The pathetic absence of modern industries in Bangladesh was largely the result of the British policy which proved destructive of indigenous industries from the beginning of the British rule⁸⁵. All initiatives and resources were in the hands of British capital interests and investment decisions were guided to suit their vested needs. The geographical locations or consideration of factor endowments of Bangladesh were of secondary importance.

In spite of its comparative backwardness, Bangladesh, inherited at Partition some major industries at least as large as those in West Pakistan. The following table shows the relative position of the two regions in 1947:

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- 83 Total number of industrial establishments in Bangladesh in 1911 was 95; there were about 822 industrial establishments in British Bengal in 1919. See P.P. Pillai, *Economic Conditions in India*, (London: George Routledge & Sons, 1925) pp. 170-74 and Nafis Ahmed, *Economic Geography*, *op. cit.*, p. 223.
- 84 C.N. Vakil, *Economic Consequences of Divided India*, (Bombay: Vora & Co. Ltd., 1950), p. 247. Total number of industrial establishments in the undivided India in 1945 was 13163 as against 252 in Bangladesh and 1154 in West Pakistan.
- 85 This was noted very early during the British rule in India by a Governor of Bengal, Harry Verelst who wrote: "The influence... proved...destructive of industries." Quoted in Pillai, *op. cit.* p. 15.

TABLE I

Number of Large Scale Industrial Enterprises
in Bangladesh and West Pakistan in 1947 ⁸⁶

<u>Industry</u>	<u>Bangladesh</u>	<u>West Pakistan</u>
Jute	nil	nil
Cotton	10	6
Sugar	5	4
Cement	1	4
Safety Matches	4	4
	<hr/>	<hr/>
Total	20	18

Starting initially from nearly the same level of industrial development as of West Pakistan, Bangladesh during 1947-1970 period tended to fall behind its associate in all spheres of economic development including in industrial growth. No doubt some significant strides in industrialisation during post-Partition period was made by Bangladesh. Total number of industrial establishments increased from 252 in 1945 to 462 in 1955 and finally 3704 in 1970-71⁸⁷. Industrial employment in Bangladesh grew to an average daily figure of 259,000 in 1971 from a tiny 36,000 in 1947⁸⁸. However, industrial progress in West Pakistan was more accelerated than in Bangladesh. Relative contribution of the manufacturing sector to GDP continued to lag behind in Bangladesh as

86 Vakil, *op. cit.*, pp. 297-309. S.M. Akhtar, *Economy of Pakistan*, (Lahore: Ashraf Publications, 1955), p. 6.

87 Nafis Ahmed, *op. cit.*, p. 223. Bangladesh Bureau of Statistics, *Statistical Digest of Bangladesh No. 9:1973*, (Dacca: Bangladesh Government Press, 1975, p. 59).

88 *Ibid.*, pp. 62-63.

compared to West Pakistan⁸⁹. West Pakistan enjoyed a higher rate of structural development. A higher proportion of the more complex, capital intensive and technologically more sophisticated industries were located in West Pakistan which had a more developed infrastructure ready for a more rapid and successful industrialisation at the end of 1970. As against Bangladesh which lost much of its meagre entrepreneurs in the wake of Partition in 1947 because of the mass exodus of the Hindu community, West Pakistan had a new inflow of immigrant entrepreneurs⁹⁰. West Pakistan had, in addition, a better supply of engineering, industrial and technical personnel⁹¹. Of the total contribution of the manufacturing sector to the GDP of the united Pakistan, share of Bangladesh was only 33 per cent compared to about 67 per cent by West Pakistan⁹². The following table shows how far industrial production in Bangladesh was outstripped by West Pakistan in 1970:

89 Contribution of the Manufacturing sector to GDP during 1950-1970 was as follows:

Year	Bangladesh	West Pakistan
1950	3.80	7.94
1960	6.03	12.26
1965	7.91	13.66
1970	8.25	---

Sources: T.M. Khan and W.A. Bergan, "Measurement of Structural Change in the Pakistan Economy", *Pakistan Development Review*, Vol. 6 (Summer, 1966), pp. 182-3, 199-202.

90 Papanek, *Entrepreneurs*, *op. cit.*; Levin, *op. cit.*

91 Government of Pakistan, Economic Affairs Division, *20 Years of Pakistan in Statistics 1947-67* (Karachi: Managre of Publications, 196), p. 170.

92 Ahmad, *Break-up*, *op. cit.*, p. 32; *Economic Survey*, 70-71, *op. cit.* pp. 2-3; (Figures arrived at from the data given in the sources cited.

TABLE II

Production of major manufacturing industries
in Bangladesh and West Pakistan in 1970⁹³

<u>Product</u>	<u>Unit</u>	<u>Production in 1969 - 1970</u>			
		<u>Bangladesh</u>		<u>West Pakistan</u>	
Cotton Yarn	Million Pounds	(16)	106	602	(27)
Cotton Cloth	Million Yards	(51)	59	726	(55)
Sugar	Thousand Tons	(16)	89	551	(17)
Cement	Thousand Tons	(20)	53	2570	(380)
Safety Matches	Million Gross	(0.11)	13	1.2	(00.42)
Tea	Million Pounds	(53)	69	nil	nil
Urea	Thousand Tons		94	203	
Sulphuric Acid	Thousand Tons		6	31	
Art Silk Yarn	Million Sq. Yards		5	79	
Cigarettes	Billion Sticks		18	22	
Vegetable Oil	Thousand Tons		6	121	
Paints	Thousand Cwt.		5	79	
Varnishes	Thousand Gallons		81	1509	
Tyres Tubes	Thousand Pieces		280	6290	
Paper	Thousand Tons		42	nil	
Newsprint	Thousand Tons		17	nil	
Paper Board	Thousand Tons		nil	37	
Jute Goods	Thousand Tons		580	nil	

Resources generated in manufacturing industries in Bangladesh were transferred to West Pakistan as only 2.5 per cent of private industrial assets were owned by the Bengali Muslims⁹⁴. A substantial amount of resources was thus siphoned off to West Pakistan in the forms of dividends, salaries, interests and profits. Industries in Bangladesh came to be closely tied to financial and social interests of West Pakistan and failed to contribute towards local capital accumulation or emergence of a dynamic entrepreneurial class in Bangladesh. Bangladesh market became an enclave extension of the West Pakistan based capitalism.

93 *Ibid.*, pp. 22-25. Figures given in parenthesis are for the corresponding products in 1950.

94 Papanek, *Development*, *op. cit.*, p. 42.

The Entrepreneurial Vacuum

Traditionally, Bangladesh lacked an indigenous entrepreneurial class. In this, the Muslim community lagged behind the Hindu community. As a result of the policies pursued during the British rule, a majority of the people of Bangladesh - peasants, weavers and the mass of the handicraftsmen earlier lost their livelihood and were reduced to poverty⁹⁵. In this the Act of the Permanent Settlement passed by the British rulers during the early period of their administration helped bring the ruin of the Bengali Muslims⁹⁶. By placing proprietorship of land in the landlords for perpetuity⁹⁷ the cultivators were placed at the mercy of the landlords, most of whom belonged to the Hindu community. The arbitrary rates of rent, illegal exactions, high handedness and tyrannical acts of the landlords made the condition of the cultivators miserable⁹⁸. The Permanent Settlement indirectly led to a creation of a powerful money lending class. The poor cultivators once in debt continued to remain in debt. The money lending class were generally Hindus who operated in the rural areas while maintaining close linkage with the urban centres. There could not be a meaningful capital formation within the rural segment of the economy. Poverty was a cause for neglect of western education for the majority of the people of

95 S.M. Ikram, *Modern Muslims in India and Brith of Pakistan*, (Lahore: S.M. Ashraf, 1965), p. 96.

96 Stagnation in agriculture can largely be ascribed to the land tenure system. Report of the Land Revenue Commission, Bengal, Government of Bengal, in 1940 recommended for the abolition of the Permanent Settlement. Also see A.R. Mallick, *British Policy and the Muslims of Bengal, 1757-1856*, (Dacca: Asiatic Society, 1961).

97 See, B.H. Badel-Lowell, *The Land System of British India*, Vol. 1, (Oxford: Clarendon Press, 1892).

98 Shila Sen, *Muslim Politics in Bengal, 1937-1947*, (New Delhi: Impex India, 1976), p. 18.

Bangladesh⁹⁹ who came to be thinly represented in government jobs and various professions like law, medicine, government services etc. In the absence of a moneyed class among the Bengali Muslims in general, most of the existing commercial and industrial undertakings were operated by the local and non-local Hindu community until 1947. Moreover, nearly all industrial development took place in or around Calcutta which was the colonial capital of the British India till the beginning of the century. As a result, capital, wealth and entrepreneurship tended to be concentrated in Calcutta. The neighbouring Bangladesh community of Muslims were virtually unrepresented in trade, commerce and industry.

After the emergence of Pakistan, the strategy to encourage private enterprise and specific government policies providing incentives helped a rapid industrial growth for Pakistan as a whole. A great majority of industrial establishments came to be owned privately. The new class of industrial entrepreneurs in Pakistan period were drawn from the Muslim immigrant traders from India, Burma, and East Africa. They brought some amount of capital and a limited fund of technical and entrepreneurial skills with them¹⁰⁰. These trading classes preferred to settle down in business in West Pakistan. The central capital¹⁰¹, the principal port and the centre of import trade on which many of these

99 *Ibid.*, p. v.

100 See, Levin, *op. cit.* Papanek, "The Development of Entrepreneurship", *American Economic Review*, Vol. 52, (May, 1962), pp. 46-58. Gustav F. Papanek, "The Location of Industry", *Pakistan Development Review*, Vol. 10, 1970, pp. 291-307.

101 At Partition, Karachi, more than 1000 miles away from Bangladesh became the central capital of the new nation of Pakistan.

entrepreneurs made their first fortunes were situated in West Pakistan. Simultaneously, transfer of industries as a subject to be administered by the central government came as strategically advantageous for these emerging entrepreneurial class¹⁰². The centralisation caused to place intending Bengali entrepreneurs in great disadvantage. The rules required prior permission to be obtained to establish a new undertaking or to extend an existing one. The great geographical incongruity was by itself a sufficient disincentive for an aspiring Bengali investor to come all the way to central capital. On the contrary, immigrant entrepreneurs found the location of their industrial establishments in West Pakistan with many advantages. Proximity enabled them to cultivate personal contacts with the bureaucracy. The government policies to result in dispersion of industries to various regions were also half-hearted and had little effect¹⁰³. Only a few immigrant entrepreneurs later found it easier to obtain permission for imported machinery or raw materials for industries established in Bangladesh and decided to set up part of the family business there.

The avowed policy of the government to allow a reasonable inequalities of income and wealth in order to provide incentive for private enterprise created a relative concentration of wealth and income in West Pakistan. The policy of import licensing along with the policy of encouraging industries to engage in export trade under incentives such as the Export Bonus Scheme¹⁰⁴ helped in this economic

102 Under the Government of India Act of 1935, industrial development was a provincial subject. The new Pakistan government reversed this arrangement by enacting the Development of Industries' Federal Control Act of 1949.

103 Papanek, *Location*, *op. cit.*

104 Quazi Kholiquzzaman Ahmed, "The Operation of the Export Bonus Scheme in Pakistan's Jute and Cotton Industries", *Pakistan Development Review*, Vol. 6 (Spring, 1966), pp. 1-37.

concentration through the integration of trading and manufacturing business interests of West Pakistan based private sector. Limitations of the size of the market and economies of scale did not leave much room for expansion in different branches of business and industry. The device of import licensing regulated the import trade and only limited number of import licences were issued so that licence holders were assured of an economic volume of business. The renewal of licences among importers were decided in reference to their performance in trade and their financial position and established import houses continued to grow in size.

The availability of foreign aid financed import went far to help very rapid growth of the private enterprise in industry sector during Pakistan period. Some of the donor countries often attached a condition to economic aid in the form of a requirement to encourage private enterprise. The lion's share of the foreign aid allocations were diverted to West Pakistan based capitalists because a powerful, influential and dynamic private entrepreneurial class came to exist there.

The direct financial assistance to private sector was inadequate in Bangladesh. During the two decades, financial assistance of centrally sponsored financial corporations like the Pakistan Industrial Credit and Investment Corporation, Industrial Development Bank of Pakistan, Agricultural Development Bank of Pakistan and Pakistan House Building Finance Corporation pursued a discriminatory policy towards Bangladesh interests. The financial assistance to private sector in Bangladesh was only 34 per cent of the total amount allocated to West Pakistan based clients¹⁰⁵. The development expenditure in the private sector

105 Verma, *op. cit.*, p. 60.

in Bangladesh was about only one-third of the same in West Pakistan.

Resulting entrepreneurial vacuum in Bangladesh is indicated from the fact that at Liberation Bangladesh found 21 per cent of its industrial establishments, 27 per cent of trading houses and 75 per cent of bank organisations were owned or controlled by non-locals constituting hardly 1 per cent of its population¹⁰⁶.

Interaction of Values and Politics

Political subjugation and economic exploitations by the West Pakistani power elites led first to disenchantment, then bitterness and finally, resistance. The leadership of the resistance movement was in the hands of the Awami League which was the organ of the middle class bourgeoisie and petty bourgeoisie in Bangladesh¹⁰⁷. But the party's opposition was limited to western constitutional framework. Its main elements were lawyers, teachers, petty traders and shopkeepers which abound in Bengali society. The radical political elements, however, considered the Awami League as a reactionary party. Still, the Awami League won support and dominated the Bangladesh politics because it grasped the principal issues facing the Bengalis when all

106 Out of 3704 registered manufacturing enterprises 786 units were left without owners. Of 9,293 commercial establishments 2187 were abandoned by the non-locals. In addition, there were 12 banks with 1175 branches which were owned by Pakistanis with a large number of non-local managerial staff. Sources: Government of Bangladesh: Bureau of Statistics, *Statistical Pocket Book of Bangladesh*, 1978, (Dacca: Bangladesh Secretariat, 1977), pp. 127, 325; Government of Bangladesh, Ministry of Finance, *Resume of the Activities of the Financial Institutions in Bangladesh*, (Dacca: Government Press, 1976), p. 8, *The Holiday*, 18 December 1977.

107 See M. Rashiduzzaman, "The Awami League in the Political Development of Pakistan", *Asian Survey*, Vol. 10 (July, 1970) pp. 574-87; Nurul Islam, *Development*, *op. cit.*, pp. 21-24; Barua, *op. cit.* Tariq Ali, "Pakistan and Bangladesh: Results and Prospects" in Blackburn, *Explosion*, *op. cit.*, pp. 295-301.

other political parties played hide and seek. The leftist¹⁰⁸ parties were inept and furthermore remained factionalised. Some of the leftist parties pursued opportunistic course which was harmful to the people of Bangladesh¹⁰⁹. The Awami League stirred the people against West Pakistani domination and advocated regional autonomy but the leftist parties decided to live in seclusion. This enabled the Awami League to present itself as the only meaningful opposition to oppressions of West Pakistani ruling group. The Awami League swept the poll in general elections in 1970 and captured 160 of 162 seats in the Central and 288 of 300 seats in the provincial legislatures. The aspirations of the Bengali national bourgeoisie and the middle classes in the national life that so far eluded them came in the process of being realised.

The Awami League was organisationally stretched to the grass root levels. The party leadership was aware of the conflicting interests involved and sought to accommodate the divergent views and interests in its policies and programmes. As a result, the Awami League could not over-ride the deep Islamic sentiments of the people during the 1970 elections. Simultaneously emphasizing Islamic

108 The leftist parties in Bangladesh consisted of the pro-Moscow faction of the National Awami Party as well as its pro-Peking faction. In addition there were the Maoist East Bengal Communist Party (Alauddin-Matin Group), East Pakistan Communist Party (Marxist-Leninist). For further details see, Talukder Maniruzzaman, "Radical Politics and the Emergence of Bangladesh" in *Radical Politics in South Asia*, Paul R. Brass, & Marcus P. Franda, eds. (Cambridge, Massachusetts: The MIT Press, 1973), pp. 223-80; Marcus F. Franda "Communism and Regional Politics in East Pakistan, *Asian Survey*, Vol. 10 (1970), pp. 588-606. Also see, M. Rashiduzzaman, "The National Awami Party of Pakistan: Leftist Politics in Crisis", *Pacific Affairs*, Vol. 43, 3 (1970), pp. 40-68.

109 East Pakistan Communist Party (Marxist-Leninist) led by Toaha and Abdul Huq opposed any national struggle that might divide Pakistan. See Kathleen Gough, "Imperialism and Revolutionary Potential in South Asia", in Gough and Sharma, *op. cit.*, p. 18.

principles, the Awami League went on to advocate the "establishment of a socialist economy" in the 1970 Election Manifestoes¹¹⁰. The Awami League promised nationalisation of banking, insurance companies, and some large industries. The Awami League also advocated land reform. The Awami League leadership had, no doubt, thought that under the prevailing circumstances, its planks for "full autonomy" coupled with these promises were adequate radical programmes. But the Liberation War and the emergence of Bangladesh changed the scenario. The Awami League found that in the changed perspectives they needed to adopt a more direct and hard-hitting strategy. The leadership of the Liberation War passed on to the Awami League but many of the freedom fighters were idealistic students deeply influenced by socialist thoughts. The Awami League leadership found it necessary to link the Liberation movement with socialist and revolutionary ideologies especially to maintain hold over the freedom fighters¹¹¹.

The Awami League had some radical elements within it almost since its inception. Earlier in 1952, the Provincial Communist Party adopted a policy of working through the Awami League as the Communist Parties were banned by the Pakistan administration. Some of the members of the Communist Party joined the Awami League and began to consolidate

110 *Awami League Manifesto, op. cit.*

111 See, Rounaq Jahan, "Bangladesh in 1972 - Nation Building in a New State", *Asian Survey*, Vol. 13 (February, 1973), pp. 199-210. Jahan writes "(the freedom fighters) - numbering 100,000 to 200,000 armed men posed a threat to the fledgling Awami League".

their position. The Language Movement in 1952¹¹² helped to create socialist and secular ethos especially among the students and the younger generation. In this, the leftist parties had played a significant role through working underground or in front organisations and also through infiltration of popular parties. Language issue, autonomy¹¹³ and exploitations were the main themes with which to agitate the people. The student fronts of the Awami League largely carried the movements for autonomy and restoration of democracy as the top leadership of the Awami League were in prison most of the time during Pakistan period. The pressure of the radical elements in the students and workers in late 1960's compelled the Awami League leadership to take a more radical approach in its policies and programmes.

During the Liberation War, the more radical leftist organisations organised an alternative centre of resistance¹¹⁴ under the banner of "National Struggle Committee". This group urged for a united military

112 Urdu was the language of less than 4 per cent of Pakistan's population. Still it was declared as the national and official language of Pakistan disregarding the claims of Bengali spoken by a majority of Pakistan's population. The Bengalis responded against this cultural imperialism of Pakistan elites which got expressions first in the language movement in 1952. For details see Badruddin Umar, *Purba Banglar Bhasha Andolan O Tatkaleen Rajneeti* [in Bengali] (Dacca: Subarna 1979) Revised Edition.

113 Until March, 1971 the programme of the Awami League consisted in the establishment of a Federation for Pakistan providing for full regional autonomy for all regions of Pakistan. See Sheikh Mujibur Rahman, "Six-Point Formula - Our Right to Live, *Bangladesh Documents*, *op. cit.* pp. 23-33. Also see Akanda, *op. cit.* The language issue was used as another weapon in the struggle for regional autonomy. See Catherine Houghton, "East Bengali Language and Political Development in Socio-linguistic Perspective", J.R. Mclane, ed., *Bengal in the 19th and 20th Centureis*, (Michigan: State University, Asian Studies Centre, 1975), pp. 119-151.

114 See Gough, *op. cit.*, p. 24.

struggle against the Pakistani invasion forces and its aim was to establish a "democratic social system, anti-imperialist, anti-feudal and anti-monopoly capital in character"¹¹⁵. The middle class constitutionalist and non-revolutionary nationalist leadership of the Awami League was apprehensive of this radicalisation of the Liberation Movement and hence was not in favour of a long protracted War of Liberation. But the credibility of the Awami League to lead a national liberation was in doubt from the beginning because of its group character and also the ambivalent manner in which its top leadership negotiated¹¹⁶ with the Pakistani military rulers before the Liberation War. The Awami League leadership was, therefore, much too relieved to obtain an Indian military intervention to liberate the country from the Pakistani occupation forces. The radical writers viewed this failure of the Awami League to liberate the country without external intervention as a "terrible indictment of the ideology it espoused"¹¹⁷. In their opinion the national struggle in Bangladesh was thus distorted.

In many ways the situation during and after the Liberation War was ironical. The Awami League, essentially a petty middle class party came to spearhead the Liberation Movement, firstly through constitutional means and finally through an armed struggle. The party set up a parliamentary form of constitutional government in a revolutionary situation. The so-called revolutionary leftist parties, on the other hand, were indulging in semantic squabbling. One group termed the struggle in Bangladesh as a conflict between the West Pakistani monopoly capitalists and

115 *Ibid.*

116 Rehman Sobhan, 'Negotiating For Bangladesh: A Participant's View', *South Asian Review*, Vol. 4, (July, 1971), pp. 315-326.

117 See for example, Tariq Ali, *Pakistan and Bangladesh*, *op. cit.*, p. 308.

Bengali nascent bourgeoisie and decided to remain aloof from the Liberation Movement. Another group decided to co-operate with the Awami League but interpreting its action as the first stage of the "two stage socialist revolution"¹¹⁸. Ousting the Pakistanis, according to this group, was only the first stage in this process of transition. A third group among the leftist parties decided to remain inactive during the Liberation War because, according to them, a protracted war would help to radicalise the masses and allow the development of revolutionary infrastructure during the war¹¹⁹. This group was apprehensive about coming of power to the Awami League too soon as it would, according to them, only mean supplanting the non-local exploiters by the local ones¹²⁰.

Along with its growing radicalization, the Awami League found it necessary to shift its stance regarding secularism in the national life. Earlier in 1970, election manifesto of the Awami League declared that Islam was the "favoured religion of the vast majority of the population" and that no law would be formulated or enforced contrary to the laws of Islam¹²¹. During the Liberation War it became necessary to play up the cultural rather than the religious identity to obtain India's sympathy and support¹²². A formal transition to secularism was expediently done to win over more Indian sympathy and support. Simultaneously, the achievement of national identity as a crucial factor in nation building continued to remain an illusory

118 Feroz Ahmed, *op. cit.*, pp. 439-444.

119 *Ibid.*

120 *Ibid.*

121 *Awami League Manifesto, op. cit.*

122 See Joseph T. O'Connell, "Dilemmas of Secularism in Bangladesh" in Bardwell L. Smith, ed. *Religion and Social Conflict in South Asia* (Leiden, E.J. Brill, 1976), pp. 64-81.

concept for the people of Bangladesh¹²³. Despite the distinct historical, social, political, demographic and cultural features national identity of the people who inhabited the territory that is now Bangladesh seemed to be not well defined. The uncertainty about the national identity of Bangladesh arose from the constant conflict of her people between their adherence to the religion of Islam and their ethnic, geographic or cultural heritage. Historically, the duality of the culture of the Bengali Muslims had resulted out of the conflict between his being at the same time Bengali and a Muslim must as it happened for an Indian Muslim. The attachment of the Bengali Muslims remained strong to their Muslim legacy. The people of Bangladesh seemed to have opted out of extra-territorial consideration for a community separatism and religious identity in their earlier desire to form association with the Pakistan brand of nationalism¹²⁴. But with the emergence of Bengali nationalism people of Bangladesh rejected both Muslim separatism and religion derived nationality. These factors made the option for Bangladeshi nationalism easier under the impact of a colonial legacy.

The compulsion as above seemed to have led the Awami League leadership to formalise their public posture of socialism along with nationalism, secularism and democracy in the Constitution of the People's Republic of Bangladesh soon after Liberation¹²⁵. In this some of the earlier declared policies and programmes of the Awami League got expression in the Constitution. The Constitution envisaged a socialist society, free from exploitations, to be realised through

123 See Abidullah Gazi, "Muslim Bengal: A Crisis of Identity in South Asia" in Thomas and Levan, *Bangladesh, op. cit.*, pp. 147-61, also Sunanda K. Datta-Ray, "Quest for Stability-Bangladesh's Muslim Identity", *The Statesman Weekly* (Calcutta) May 24 & 31, 1980.

124 S.M.M. Qureshi, "Pakistani Nationalism Reconsidered", *Pacific Affairs*, Vol. 45, (Winter 1972-73) pp. 556-572.

125 *Bangladesh Constitution, op. cit.*, Article 8(1).

the democratic process. In such a society, the rule of law, fundamental human rights and freedom, equality and justice - political, economic and social - would be secured for all citizens. The State would adopt a planned economic growth and would be responsible for achieving constant increase in production to provide the people with basic necessities of life and steady improvement in the material and cultural standard of living of the people. The State would ensure a just and egalitarian society. It would take effective measures to remove social and economic inequality and ensure equitable distribution of wealth among citizens. It was envisaged in the Constitution that except for ownership by co-operative on behalf of their members and private ownership by individuals as prescribed by law, all instruments of production and distribution were to be owned and controlled by the people. The Constitution provided for acquisition, nationalisation or requisition of any property with or without compensation.

In the election manifesto of 1970 simultaneously emphasizing Islamic values the Awami League made it known that the party advocated the establishment of a socialist economy, and nationalisation of banking, insurance companies, jute industry, cotton textile and basic heavy industries. It was, however, never adequately debated in Bangladesh if Islam and Socialism were compatible although lively debates have been held in some other Muslim countries such as Indonesia and Egypt and also in the Western world¹²⁶. It seems that deep in popular consciousness lay a belief among the ordinary Bengali Muslims that Islamic value and cultural systems were generally more agreeable to Socialism. Some

126 Rosenthal mentions of one Muslim writer who claimed: "European socialists would be converted to Islam if they only knew that true socialism was taught in Islam alone and should be practised by every Muslim". See Erwin I.J. Rosenthal, *Islam in the Modern National State*, (Cambridge: University Press, 1965), p. 91.

scholastic writers have lent their support to this position. According to Mya Maung¹²⁷, the philosophy of Islam tends to foster a collective social consciousness which is reflected in the concept of the Muslim community (Umma), the universal brotherhood and equality of believers, the social consciousness and oneness of God. The Koran's prohibition of usury along with its stress on alms-giving are thought to work against the acquisition of excessive wealth. Along with above Islamic values coupled with the less pronounced social differentiation, Bangladesh was apparently amenable to formation of a socialist society¹²⁸. It has been argued by Etyptian and Indonesian scholars¹²⁹ that there is no dichotomy in man's pursuits of self interest on the earth and life hereafter or Islamic sanction of both private property and socialism so long as there is adherence to religious values. In other words, Islamic Socialism may not just be a lexicographic novelty but a practical proposition.

127 Mya Maung, *Burma and Pakistan: A Comparative Study of Development*, New York: Praeger Publishers, 1971), pp. 91-92.

128 Maxime Rodinson on the other hand seems to think that Islam is poorly fitted to fly the banner of socialist economic construction. According to him, Islam is bound up historically with that traditional society in which one of the fundamentals is practically untouchable status of private property. Rodinson points out that economic teachings of Islam, expressed in the Koran and in the Sunnah does not condemn in principle or hinder in practice, the development of the capitalistic sector in the economy. See Rodinson, *Islam*, *op. cit.* According to another scholar, Islam's fundamental concepts concerning the sanctity of contracts, the respect for private property, and the relationship of individual and State, are well in line with the trend of contemporary Western legal thought. Schacht, *op. cit.*

129 See Donald E. Smith, ed., *Religion, Politics and Social Change in the Third World* (New York: The Free Press, 1971), pp. 237-243 and pp. 204-207.

According to Islam, Allah is the Owner of the earth and all its contents. But the earth is also the gift of Allah to man. So man can exploit the resources of earth for his material development. Truly, Islamic jurisprudence respects private property obtained by lawful means and prohibits any infringement of it; but the earthly owners of such property need to

recognize in their property certain rights for others by which it seeks to attain social adjustment and realize a sense of brotherhood...¹³⁰

Islamic jurisprudence recognizes that compensation needs to be paid for loss or damage of such private property by the person who commits such acts. Private ownership is legitimate as long as the earthly owner abides by Allah's ordinances concerning such wealth. If the private owner fails to obey the ruler is entitled to devise laws and regulations which compel him to adhere to the injunctions of Allah. Accordingly, Islamic jurisprudence prohibits the monopoly of people's food and the necessities of their daily life. Islam thus gives sanction to public ownership of properties that are essential to people. Nationalisation of public institutions and monopolies to attain realisation of national interest, therefore, is within the legitimate rights of the government. In fact, according to the above interpretations, it becomes incumbent for the State to take over in certain cases such as monopolies of food and other essential commodities and services¹³¹. Individualism, it is argued, is not abolished by

130 "The Mufti Answers Your Questions", *Minbar Al-Islam*, (Cairo: English ed.), July 1962, pp. 56, 58-60. Quoted in *Ibid.*, p. 210.

131 *Ibid.* p. 212. Mufti argues: "Faqihs-jurists - have unanimously prohibited the monopoly of people's food and the necessities of their daily life. The prohibition safeguards the interests of the people and is in accordance with the... tradition - *hadieth*... Thus we can sanction the nationalization of public institutions indispensable to everyday life..."

virtue of nationalisation or socialisation¹³². Socialisation is only a means to realise social justice and the people's prosperity, which can be achieved without eliminating a certain class or group. Hence it is not necessary, the argument goes, to introduce socialisation of the whole economy. Nationalisation should be envisaged only when private sector fails to expand production or hinders productive activity.

In the period preceding the Liberation, the academic circles, the national press or the legislatures did not debate the issues at any length. It seems at the time the aspects of economic exploitation by a non-indigenous capital and attainment of economic independence were the major concerns of the Bengalis and the ideological aspects of nationalisation did not stimulate the Bengali intellectuals as much. However, it could have been possibly a different situation if any meaningful land reform proposal was introduced in the form of abolition of absentee landholding or rehabilitation of the landless labour on the lands they cultivate as sharecroppers or initiation of an effective system of co-operative agricultural farming.

Petras¹³³ has outlined a perspective for the transition to socialism in the periphery. Inequalities and penetration and interlock of class structures leave little room for a peaceful transition to socialism. Bangladesh at the time of Liberation in 1971 seemed to be on a wayward course. Objective conditions were not unsuitable for a radical

132 In his speech delivered on May 21, 1962, Egypt's Nasser declared that nationalisation was not a blow to individual initiative but a guarantee to and an expansion of the range of general interest in cases affected by the socialist change, carried out for the benefit of the people. See Sigmund, *op. cit.*, p. 133.

133 J.F. Petras, "Class and Politics in the Periphery and the Transition to Socialism", *The Review of Radical Political Economics*, Vol. 8 (2) (Summer, 1976), pp. 20-33.

transformation but in the absence of a radical leadership the movement passed on to the bourgeoisie which was effectively propagating socialist rhetoric but in reality its class character charted a different path. The people of Bangladesh including its leadership, faltered within a twilight zone of different but not necessarily incompatible values and ideologies.

Summary Observation

The colonial economics of the British imperialism and the exploitative era of Pakistan were instrumental in the industrial backwardness of Bangladesh. The industrial structure that developed was distorted¹³⁴ and can be at its best described as an example of "frustrated take-off"¹³⁵. The ruling elites during the Pakistan period made industry the cornerstone of their strategy for economic development. The emphasis placed by them on the private sector tended to bias this strategy in favour of West Pakistan. The slow growth of the small scale industry, the enclave development of the large scale industries, existence of considerable underutilised capacity, high degree of capital intensity and non-emergence of indigenous Bengali entrepreneurship or large capital were the fruits of the economic policies pursued after the Partition and the establishment of Pakistan.

History of Bangladesh during the quarter century of its association with Pakistan supports the hypothesis that political independence

134 See for example, Gordon C. Winston, "Overinvoicing, Underutilization and Distorted Industrial Growth", *Pakistan Development Review*, Vol. 10 (4) (1970), pp. 405-421.

135 J.H. Power, "Industrialization in Pakistan: A Case of Frustrated Take-off?" *Pakistan Development Review*, Vol. 3, (1963), pp. 191-207.

is meaningless without economic autonomy. There cannot be any stable political independence if foreign economic domination persists and foreign monopolies hold key branches of the economy. The crushing poverty of the vast majority together with colonial legacies strengthened the desire to own and control the means of production, distribution and exchange by the community. Primarily egalitarian character of the society, abject poverty, slow ripening of the capitalist attitude, lack of indigenous entrepreneurs or capital, policy discriminations and economic exploitations by the West Pakistan based ruling oligarchy, ownership of the major segments of the industrial and commercial houses including financial institutions by West Pakistani capitalists, radical views generated during various political movements and war of Liberation and transfer of resources to West Pakistan during 1947 and 1971 fostered a general apprehension toward private ownership of large scale industries, trading houses, financial institutions and other monopolies. There was also the pressure of a large majority of vocal students and the labour front radicalised before and during the armed struggle against Pakistan. Under these circumstances, there seemed to be not many policy options left for the post-liberation rulers in Bangladesh in respect of their formulation of economic and industrial policies. They declared the intention to pursue a dominant public sector policy. Nationalisation was the most important manifestation of this object.

CHAPTER III

EXPERIMENTS IN NATIONALISATION

Nationalisation could hardly have happened in Bangladesh fortuitously. As examined earlier, the process of social, political and economic experiences of the people of Bangladesh over past decades helped to mould the values, philosophies and material status which resulted in nationalisation being accepted as a major instrument of economic and industrial policy. The political elites explained nationalisation in terms of socialistic ideology. But as it will be seen in this chapter nationalisation in Bangladesh has served the purpose of patronising capitalism under the different regimes irrespective of their apparently dissimilar ideological orientations. Ambivalence of both the Awami League and the Military regimes contributed towards this dichotomy. In order to understand this dichotomy it may be in order to examine the relevance of the public postures of the ruling elites about nationalisation in terms of the rhetoric, election manifesto, Constitution, planning strategy, and industrial policy in relation to the actual execution of nationalisation in Bangladesh.

Political Rhetoric

The immediate task at Liberation in the industrial sector was to resume production, provide employment and income to the workers, supply goods and services to the consumers and find access to foreign exchange to meet the import bills through exports of accumulated stock at the enterprises¹. Owing to mass exodus of owners, managers, entrepreneurs,

1 General Index of industrial (manufacturing) production in Bangladesh fell to 80.87 in 1972-73 as against 100 in the base year, 1969-70. Foreign Exchange Reserves of Bangladesh was *nil* from December 16, 1971 until January, 1972. See, Government of Bangladesh, *Statistical Year Book of Bangladesh*, 1979 (Dacca: Bureau of Statistics, 1979), p. 237, Table 5.1; p. 317, Table 7.22.

technical and skilled personnel many of the enterprises abandoned by the non-local people came to a stand-still². As a result in the initial stage management boards for the abandoned enterprises were set up regionwise under the leadership of officials of the Ministry of Industries. This seriously overstrained the meagre administrative resources of the government. These boards were practically replaced by the administrators, specially appointed to manage these enterprises. It was essentially a temporary arrangement. These administrators were mostly selected from the outsiders and out of personal choice of the political leaders without having regard to their educational or professional competence for the position³.

After the initial period of ad-hoc management, the need for a long term institutional and policy framework to cope with the problem of operating these enterprises was felt. The government had the option of handing over these enterprises to whatever private sector there was left. Alternatively, the government could nationalise them all or in part and run the enterprises as part of the public sector. There were practical difficulties in assuming managerial responsibility for as large as 786 enterprises with assets varying from Taka ten thousands to Taka fifty millions. Even if larger enterprises were to be taken over there was no unanimity where the line should be drawn and what should be drawn and what should be done with the units below the take-over line⁴. There was also some uncertainty as to whether Bengali owned

2 *Supra.*, Chapter II, footnote 106. Besides the exodus of the managerial and owner classes the economy was devastated, communications disrupted and supply lines cut-off.

3 Interview with a deputy director of industries who served as a member of a management board during the period immediately following Liberation.

4 Sobhan, *Nationalization*, *op. cit.*, p. 187.

enterprises were to be excluded from being nationalised in the event of a decision to nationalise⁵. Jute and cotton textile industries, in particular contained the meagre Bengali entrepreneurial class that existed and they were branded as the 'big capitalist class'. According to Sobhan, it would have been an anathema, in the prevalent mood of the people to let them survive, grow and prosper, and thus to connive at building the foundations of a virile and indigenous capitalist class who would have the potential to acquire far greater durability than the expatriate capitalists⁶.

The political environment was appropriate for any radical move such as nationalisation. The people seemed to be willing to bear with any temporary dislocations which might have accompanied the nationalisation decision⁷. There was a general feeling that industrial enterprises had been set up at the expense and through exploitation of the people of Bangladesh and henceforth they should belong to the people. Even the idea of a transfer or sale of abandoned enterprises to Bengali moneyed class was resented and vehemently opposed. Thus immediately after Liberation, a prominent labour leader declared:

A section of Bengali capitalist class is conspiring to buy the factories left by their original owners at nominal prices...We do not believe in private property and we are determined to uproot any budding capitalist at the very birth.⁸

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- 5 *Ibid.*, Rehman Sobhan was a Member of the Planning Commission and largely instrumental in the formulation of the industrial policy immediately after Liberation.
 - 6 *Ibid.*, p. 188. Sobhan here admirably reflects the prevailing mood of the leadership and the people.
 - 7 Memories of political subjugation, economic exploitations and disparity in economic and industrial development under a free-enterprise policy were too vivid. Only 47 per cent of fixed assets in the private sector were owned by local Bengalis.
 - 8 Extracts from the speech of Abdul Mannan, General Secretary of the Jatiyo Sramik League - the labour front of the ruling Awami League on January 1, 1972; reported in the Bengali daily, *Ittefaq* (Dacca). Also April 11, 1972 issue of the daily.

The same labour leader demanded that no factories under government management were to be transferred to any private ownership⁹.

Several organised groups including employees' federation of financial institutions demanded nationalisation of banks, insurance companies and heavy industries¹⁰. The student front of the Awami League in a resolution of its central committee declared:

The true and equal rights in the society, rather than the establishment of democracy will be possible only through the complete abolition of economic inequality and a full socialistic system.¹¹

There seemed to pervade a lurking apprehension about the resurgence of a capitalist class which, at times were bluntly expressed and in no uncertain terms. A labour leader declared that sacrifice in blood during the Liberation War was made not to create another Bengali capitalist class but for the establishment of an exploitation-free society¹².

The government could not overlook the prevailing environment and the popular mood. The top personalities in the Awami League Government had to assure the people repeatedly as to their intentions. The Vice-President of the new republic affirmed to the nation that the taken over industries would not be restored to their former owners whether Bengalis or non-Bengalis. He announced :

The government shall very soon nationalise the major industrial enterprises and commercial establishments owned by the foreigners in order to achieve the goals of socialism.¹³

9 *The Daily Ittefaq*, 22 March 1972.

10 *The Daily Ittefaq*, 23 January 1972.

11 *The Daily Ittefaq*, 24 March 1972.

12 *The Daily Ittefaq*, 20 March 1972.

13 *The Daily Ittefaq*, 19 January 1972.

A senior minister in the government declared:

It shall not be permitted to help grow a capitalist class in Bangladesh...The Awami League Government is determined as pledged to establish socialism in the country.¹⁴

It was in this atmosphere that the decision to nationalise the banks, insurance and the major industries was announced by the government.

The Prime Minister, Sheikh Mujibur Rahman declared:

My government believes in internal social revolution. There must be a change in old social systems...My government and the party are pledged to introduce a scientific socialist economy...First step, namely, nationalisation has been taken as the beginning of a planned programme towards socialisation of resources.¹⁵

The Finance Minister claimed that nationalisation was a bold step towards establishment of a "complete socialism" in the country. This would enable the people to enjoy the profits of the industrial enterprises which were previously appropriated by a few capitalists¹⁶.

Similarly the Industries Minister claimed that nationalisation would bring "revolutionary change" in the industrial field¹⁷ and in explaining the decision stated:

During the period of Pakistani Administration a monopoly capitalism of twenty two families was established in the name of development. These twenty two families controlled the economy. They also used to control politics with a view to safeguard their monopoly capitalism. In this their major shareholdings in banks, insurance business and foreign trade helped...The principal objective of the bloody War of Liberation was to attain economic freedom...and freedom from all sorts of political and economic servitude.¹⁸

14 *The Daily Ittefaq*, 16 March 1972. Speech of Khandkar Mushtaque Ahmed who later became the President of Bangladesh after the military coup in August, 1975.

15 *The Daily Ittefaq*, 27 March 1972.

16 *The Daily Ittefaq*, 3 April 1972, Speech of Tajuddin Ahmed.

17 *The Daily Ittefaq*, 24 January 1972.

18 *The Daily Ittefaq*, 3 April 1972.

There was no public opposition against the nationalisation programme. The Bengali daily Ittefaq, known for its views generally supporting free enterprise editorially mentioned:

The government has demonstrated a firmness in nationalising banks, insurance and major industries true to its pledge.¹⁹

There was no public articulation of views opposing the nationalisation programme by the Bengali private sector either. Bengali capitalists and financial interests were never a strong and consolidated force. Most of them owed their existence and prosperity to their partnership with West Pakistan interests and as such they could never establish a firm stronghold in the Awami League. It is because of this the existing Bengali private sector could not operate as a powerful pressure group affecting the policies within the Awami League. After the Liberation and expulsion of the Pakistani forces these Bengali private sector interests found themselves without any political ally and failed to work out a suitable strategy to protect and promote their interests²⁰.

Some questions were raised about the character of nationalisation programme. The daily Ittefaq brought out a very mild critique as follows:

Already doubts have been expressed that...for fear of nationalisation much of our resources are being transferred to foreign banks instead of investing them towards industrial production.²¹

The nationalisation programme, according to a commentator in Bangladesh, suffered from two major shortcomings. It ignored the practical difficulties which might thwart implementation. Second, it had wrong

19 *The Daily Ittefaq*, 28 March, 1972, Editorial.

20 Badruddin Umar, "They Call It Socialism!", *The Holiday*, 23 April 1972.

21 *The Daily Ittefaq*, 3 May 1972, Editorial.

priorities. He suggested it was far easier to announce a programme to invent and devise appropriate institutions which would be necessary for its implementation. The planners of the Awami League appeared to be not really conscious either of the forces of resistance or of the need for appropriate institutional requirements for the implementation of the programme which they had launched²². There was no opposition to nationalisation per se during the period immediately after Liberation. Apart from the above comments, the contention of a member in the Parliament that there was not a single person who opposed nationalisation at the time was not far from truth²³.

There were signs of awareness too that nationalisation would not, by itself, and automatically give rise to establishment of a socialistic society. A senior member of the Parliament stated that

this nationalisation is not socialism and it cannot be said that this is the first step of socialism. This has set up a state capitalism and which is not conducive to (the growth of) socialism.²⁴

It was argued that although Bangladesh adopted socialism as a fundamental principle of the State, the economy was far from being modelled in a socialistic economic pattern. The economy contained most of the characteristics of capitalism. The State had totally insufficient control over production, supply distribution, demand and purchasing power. As an observer stated, the overall economy of Bangladesh was

22 Badruddin Umar, "Nationalisation: Cart Before The Horse", *The Holiday*, 12 April 1972.

23 Speech of Mahiuddin Ahmed on April 13, 1973, a member of the Bangladesh Parliament. He said, "We did not find a single person who opposed at the time of nationalisation. See Bangladesh Parliament, *Bangladesh Jatiyo Sangshader Bitarka Sarkari Bibaroni Pratham Khanda 1973 (7th April to 19th April, 1973)*, p. 144 (hereinafter referred to as *Debates*).

24 *Debates*, 12 April 1973, Vol. I, No. 3, p. 89.

a mixture of half socialism and half capitalism²⁵. The government was yet to adopt or even to initiate a definite programme to achieve the avowed goals of socialism. There were as yet no changes in the rules, regulations and the system as they existed. Nowhere was a socialistic system being practised or was in the offing, as for example, in respect of work production, industrial production, agricultural production, utilisation of the manpower or the educational system. A major criticism of the nationalisation programme of the Awami League was its policy of keeping the marketing and distribution of the products of the nationalised sector insulated from public sector control and management. While production processes were State owned and controlled the marketing and distribution were left to the private sector dominated by greedy agents, dishonest wholesalers and retailers. The lacuna, according to a commentator was going to frustrate the move towards socialism²⁶.

Doubts were raised about the socialistic pretensions of the Awami League. It was argued that although nationalisation and some other measures taken by the Awami League resembled socialistic methods, it could not be characterised as a socialistic organisation²⁷. As previously noted²⁸ during the course of Liberation a large number of socialistic elements gathered under the banner of the Awami League and there were all varieties of leftists who had been popularising the socialistic ideas for a long time. But the Awami League did not transform into a revolutionary organisation simply because it led the

25 *The Daily Ittefaq*, 25 June 1972.

26 Rizwanul Islam, "On Nationalisation", *The Daily Ittefaq*, 19 May 1972.

27 Umar, *Cart*, *op. cit.*

28 *Supra.*, Chapter II.

armed struggle towards the Liberation of Bangladesh; similarly the Awami League did not become a leftist organisation by adopting socialism as a fundamental principle of the State²⁹. The Awami League was not a revolutionary government for the same reasons it was not a revolutionary political party³⁰. The Awami League was possibly not more than reflecting the popular will and responding to popular pressures. The vast majority of the middle class within the Awami League leadership³¹ would have much liked to grab the "abandoned" enterprises, if they could³².

It was stated by the Awami League leaders that the ultimate objectives of the various policy declarations made by them concerning industries, trade and agriculture, was the establishment of socialism. In a socialistic economy the abolition of capitalist ownership and establishment of public ownership of the basic means of production are regarded as cardinal laws of the transition from capitalism to socialism. Any country which likes to follow a road to socialism must pursue a course of "socialistic nationalisation of industry"³³. But while the government in Bangladesh declared that the framework for its development was to be that of a socialist State, it was never explained with any clarity what exactly was meant by a socialist framework in the

29 Abul Mansur Ahmad, "Whether the government in Bangladesh is revolutionary or an elected one?" *The Daily Ittefaq*, 8 September 1972.

30 *Ibid.*

31 For the background of the members of Bangladesh Parliament see, Rounaq Jahan, "Members of Parliament in Bangladesh" *Legislative Studies Quarterly*, Spring, 1976; Out of 315 members in the Bangladesh Parliament on the basis of election held in 1973, more than 36 per cent of the members were professional lawyers and physicians; 17 per cent of the members were businessmen and 12 per cent of the members were agriculturalists. Also see *Bangladesh Parliament (A Hand Book)*, Dacca; 1974.

32 Eneyetullah Khan, "The State of the Nation", *The Holiday*, 22 October 1972.

33 Vinogradov, *op. cit.*, p. 5.

context of Bangladesh. Prime Minister Sheikh Mujibur Rahman's reply to a query as to what he meant by Bangladeshi socialism was typically evasive. His reply was:

Socialism as we shall practise in Bangladesh.³⁴

The statement of the Law Minister, Dr. Kamal Hussain on the floor of the Constituent Assembly was vague and full of generalities. He stated that:

...to us socialism means freedom from economic exploitation. By socialism we understand a social system in which everybody would equally share the needed sacrifice to build up the nation and its economic system.³⁵

The brand of socialism avowed by the Awami League continued to remain unidentified. The political ideal and pattern of the Awami League administration came to appear as the continuation of goals and issues in general terms as embodied in the manifesto of 1970 elections. The Awami League did not spell out a comprehensive socio-economic programme during its two decades of existence since 1948. The Awami League could define for itself only a mild social democratic position in the mid 1960's³⁶. The Six Point Formula³⁷ which was the response of the Awami League to the political and economic subjugation by West Pakistan merely took note of the cumulative effects of economic injustices done to Bangladesh. The Formula, in taking note of insufficient industrialisation in Bangladesh pointed out that the little industrialisation

34 Robinson & Griffin, *op. cit.*, p. 13.

35 Bangladesh Parliament, *Bangladesh Gono-parishoder Bitarka*, Vol. II, No. 1, 1972 [in Bengali] (Dacca: Government Press, 1972), p. 24.

36 During the provincial elections in Bangladesh in 1954 the combined opposition programme included nationalisation of jute trade and abolition of the system of landlordism.

37 Sheikh Mujibur Rahman, *Our Charter for Survival: Six Point Programme* (Dacca: Pioneer Press, 1966).

which had taken place was by the non-locals. This was, in effect, foreign investment both in the matter of employment and remittance of profit. Beyond this, the Six Point Formula did not contain any radical measure suggestive of socialistic orientation on the part of the Awami League. The objectives and programmes of the party were expressed in broadest terms so that wide options could be retained in selecting policies and programmes by the practical and pragmatic politicians of the Awami League³⁸. The ideological framework of the Awami League was thus more designed to accommodate divergent groups than to form specific guidelines for policy formulation and development³⁹.

A sense of urgency before the general elections in 1970 however, tended to make it politically imperative to make some public display of its socialist goals. In this regard, the Awami League could capitalise on the deep sense of exploitation already felt in Bangladesh⁴⁰. The Awami League therefore, found no uncertainty at the time in introducing some socialistic elements in its election promises. The manifesto of the Awami League for 1970 general elections⁴¹ carried not a few socialistic shibboleths. The manifesto deplored "the concentration of wealth in the hands of the privileged few" and stressed "radical change in the

38 For an account of the emergence of the Awami League see, Rashiduz-zaman, *Awami League*, *op. cit.*

39 The Law Minister said in an interview: "We are not doctrinaire. Ours is not an ideological party" see, Stephen Clarkson, "The Emergence of Bangladesh and its Ensuing Foreign Relations Bangladesh: The Model Muddle" in Barbara Thomas & Spencer Lavan eds. *West Bengal and Bangladesh: Perspectives from 1972* (Michigan State University, Asian Studies Center, Occasional Paper No. 21, 1973), pp. 237-41.

40 *Supra*. Chapter II.

41 General elections in Pakistan were held for the first time after 1947 in December, 1970. The Awami League won a landslide victory in Bangladesh.

structure of the economic systems". The basic aim of the Awami League programme was, as announced in the manifesto, the creation of a just and egalitarian society free from exploitation. The vision was that of a

socialistic economic order in which economic justices would be removed...and provisions made for the just distribution of the fruits of such growth among all sections of the people...⁴²

The manifesto took note of the fact that at the root of social inequalities lay a defective institutional framework which made private enterprise the sole vehicle of economic growth. The pursuit of private profit led inevitably to concentration of wealth in a few hands and to the control of the key sectors of the economy by powerful coteries. The Awami League, therefore, intended to

alter the institutional framework of the economy by measures of nationalisation and the extension of the public sector, by the development of co-operative enterprises and by the evolution of new institutional arrangements such as workers' participation in the equity and management of industrial enterprises.⁴³

The manifesto envisaged the programme of nationalisation as a precondition for achieving economic growth in conformity with the goal of social justice. As the past policies of industrial development had shown scant regard for the fulfilment of social needs the Awami League programme set the basic goals of industrialisation as:

- (i) creating an industrial base capable of meeting the basic requirements of capital and consumer goods;
- (ii) reducing the dependence for basic requirements upon external resources;
- (iii) creating employment.⁴⁴

42 *Awami League Manifesto, op. cit.*

43 *Ibid.*

44 *Ibid.*

The manifesto contained a limited proposal for nationalisation of heavy industries including iron and steel, mining, machine tools, heavy engineering, petro-chemicals, fertiliser, cement, fuel and power⁴⁵. It also called for nationalisation of banking, insurance, foreign trade, jute and cotton trade, airlines, international transport and shipping. However, not one significant enterprise in the industries specifically mentioned was in fact in the private sector. Airlines and most of the international transport were already in the public sector. Almost every political party in 1970 wanted nationalisation of banks, insurance business, public transport, State trading of major exports etc. The programme of the Awami League when translated into specific economic programme was no radical than perhaps, the manifesto of the rightist Convention Muslim League Party in 1970⁴⁶ which envisaged the same pattern of the public sector as the Awami League without indulging the semantics of socialism. The manifesto did not contain any significant proposal for land reform which was crucial for improvement in the major sector of production in the country⁴⁷.

The public posture of the Awami League on socialism continued after Liberation and the new party constitution of the Awami League reiterated that the aim of the party was to

45 *Ibid.*

46 For the text of the Convention Muslim League Manifesto for the general elections in 1970 see Tariq Ali, *Pakistan Military Rule or People's Power*, (London: Jonathan Cope, 1970), pp. 255-59.

47 See Azizur Rahman Khan, "Bangladesh: Economic Policies since Independence", *South Asian Review*, Vol. 8. (1947), pp. 13-32.

establish the political, economic, social and cultural rights of all classes of people of Bangladesh and an exploitation free society.⁴⁸

The manifesto of the Awami League for the general elections held in 1973 re-emphasized its determination "to build a socialist economic structure" and to take up "programme for expanding the people's ownership of the basic industries and means of production".⁴⁹

The formal expression of the Awami League socialism was embodied in the Constitution of the People's Republic of Bangladesh. The Constitution envisaged a socialist society free from exploitations, to be realised through the democrat process. In a society, the rule of law, fundamental human rights and freedom, equality and justice - political, economic and social would be secured for all citizens⁵⁰. The State would adopt a planned economic growth and would be responsible for achieving constant increase in production to provide the people with basic necessities of life and steady improvement in the material and cultural standard of living. The State would ensure a just and egalitarian society and would take effective measures to remove social and economic inequality and ensure equitable distribution of wealth among citizens⁵¹. The Constitution envisaged that except for ownership by co-operatives on behalf of their members and private ownership by individuals as prescribed by law, all instruments and means of production and distribution were to be owned and controlled

48 Zillur Rahman, *Bangladesher Awami Leaguer Gathontantra*, in Bengali (Constitution of the Bangladesh Awami League) (Dacca: Bangladesh Awami League, not dated).

49 Bangladesh Awami League, *Bangladesher Awami Leaguer Nirbachoni Istehar*, [in Bengali] (Election Manifesto of Bangladesh Awami League) (Dacca: Bangladesh Co-operative Book Society Press, 1973), pp. 6-7.

50 *Constitution*, *op. cit.* p. 1, Preamble.

51 *Ibid.*, pp. 5 & 7, Articles 10 & 19 (2).

by the people⁵². The Constitution provided for acquisition, nationalisation or requisition of any property with or without compensation⁵³.

In a legislature almost absolutely dominated by the Awami League, the enactment of the Constitution faced little criticism⁵⁴. However, some of the criticisms were not trivial though ignored at the time. The Constitution was criticised for aiming to create a unique system of dictatorship by the Prime Minister; it was intended for a perpetual emergency; and the socialist provisions failed to satisfy the socialists who thought that making socialism a part of the fundamental principles of the State policy, without making that principle enforceable in a court of law, would not lead to the establishment of socialism⁵⁵.

The political philosophy of Bangladesh as reflected in the Constitution and according to the classical theory in the Marxist-Leninist tradition, suffered from internal contradiction by aiming to attain socialism through traditional parliamentary democracy⁵⁶. The Constitution provided, on the one hand, for a nationalised public sector embracing the key sectors of the economy⁵⁷ and on the other for emancipating the peasants and workers from all forms of exploitation. But the greater part of the economy - the bulk of agriculture sector was left outside the public sector. The State would endeavour to

52 *Ibid.*, p. 6, Article 13.

53 *Ibid.*, pp. 14-15, Article 42.

54 Abdul Fazl Huq, "Constitution Making in Bangladesh", *Pacific Affairs*, Vol. 66 (Spring, 1973), pp. 59-76.

55 See for example, the statement of Maulana Bhashani, reported in the *Daily Ittefaq*, 15 November 1972.

56 Md. Anisur Rahman, "Priorities and Methods for Socialist Development of Bangladesh" in Robinson & Griffin, *op. cit.*, p. 16.

57 *Constitution, op. cit.*, Article 13 (a).

create condition in which, as a general principle, persons shall not be able to enjoy unearned income⁵⁸ and allow private ownership of the means of production and distribution to exist. It provided for parliamentary democracy of traditional Western variety where socialists and non-socialists, the exploiter and the exploited, would have equal rights but unequal opportunities to seek election and seize power⁵⁹.

The contradictions within the Awami League became apparent early in the controversies over introduction of pure socialism or mixed economy. The controversies led to factionalism within the top echelon of the party and the government tilted the balance in favour of the rightist faction of the party when in the middle of 1974 economic situation reached a crisis proportion and massive foreign aid was required⁶⁰. Incapacity in the economic management⁶¹ and its wanton acts of patronage eroded the popularity of the Awami League. In its desperate attempt to suppress an increasingly vocal opposition⁶¹ the Awami League Government gave up the facade of parliamentary democracy and resorted to the device of a one-party dictatorship and

58 *Constitution, op. cit.*, Article 20 (2).

59 Anisur Rahman, *Priorities and Methods, op. cit.*

60 The economy of the country had virtually collapsed by the middle of 1974. See Talukder Maniruzzaman "Bangladesh in 1974: Economic Crisis and Political Polarisation", *Asian Survey*, Vol. 15 (February 1975), pp. 117-128.

61 Rounaq Jahan, "Bangabandhu and After: Conflict and Change in Bangladesh", *The Round Table*, Vol. 66 (January 1976) pp. 73-84.

62 The Real threat came from the radical revolutionary parties. These parties had been articulating the view that the Awami League Government were "representatives of exploiting classes of Bangladesh" and agents of "expansionist" and "imperialist" powers. They were arguing that the 1971 revolution was unfinished and the "puppet government" led by the Awami League must be replaced by force under the leadership of workers and peasants so that a "national democratic revolution" could be completed. See, Maniruzzaman, *Economic Crisis, op. cit.*, pp. 120-22.

totalitarian control. The Constitution was amended to provide for a presidential form of government. A State of Emergency was declared and all fundamental rights conferred by the Constitution were suspended⁶³. The Awami League Government's attempt to deploy the Army as aid to Civil Administration⁶⁴ finally ended up in its own ouster from power in the tradition of pre-liberation military coups.

The military regime which replaced the Awami League, however, faced certain criticism from the radical elements. The leftist parties called for the formation of "revolutionary councils among the soldiers, industrial workers, peasants and intellectuals to usher a proletariat revolution"⁶⁵. The military elite was criticised as it was allegedly being led towards an "anti-revolutionary direction by the rightist reactionaries and pro-U.S.A. elements"⁶⁶. In fact, the group character of the new military elite was hardly any different from the political elite it replaced. The officers of the Bangladesh Army came from the middle class families (landholders and urban employees) like the ruling political elite it succeeded⁶⁷. Although traditionally apolitical⁶⁸ discrimination against them by the Pakistani administration and their participation in the Liberation War helped

63 Talukder Maniruzzaman, "Bangladesh in 1975: The Fall of the Mujib Regime and its Aftermath", *Asian Survey* Vol. 16, (February 1976) pp. 119-12. Also, Jahan, *Bangabandhu*, *op. cit.*

64 Barua, *op. cit.*, pp. 209-210.

65 Maniruzzaman, *Bangladesh 1975*, *op. cit.*

66 Talukder Maniruzzaman, "Bangladesh in 1976: Struggle for Survival as an Independent State", *Asian Survey*, Vol. 17, (February, 1977) p. 195.

67 Barua, *op. cit.*, pp. 202 and 207. A systematic study on the socio-economic background of the officers in the Bangladesh Army is still awaited.

68 *Ibid.*, p. 202.

substantially to police⁶⁹ them. They became further disenchanted with the Awami League Government as the latter did allegedly give only inadequate recognition to the contribution of the Army toward the Liberation⁷⁰. The officers in the Bangladesh Army, a few in number but trained in British-Pakistani tradition were socially a closed, cohesive and elite group with a sense of professional pride⁷¹ which stood magnified owing to personal contributions of a number of officers in the Liberation War. In addition, for the military elite, a continuance of the military rule or their position of dominant authority meant an access to virtually unlimited upward social mobility. The military regime could draw its strength from the closely knit group of officers and above all from the possession of arms, to prolong and if possible, to perpetuate its hold over the State. In order to widen its popular support, the military elite "made several gestures to the growing Muslim sentiment" in Bangladesh⁷². The Constitution although not abrogated was amended by a Martial Law Proclamation⁷³ abandoning "secularism" as a fundamental principle of the State and inserting instead some Islamic provisions. Socialism in the Constitution modified by the military administration was to mean henceforth as "economic and social justice" together with the principles derived

69 M. Rashiduzzaman, "Changing Political Patterns in Bangladesh: Internal Constraints and External Fears", *Asian Survey*, Vol. 17 (September, 1977), pp. 792-808. Also, Jahan, *Bangabandhu*, *op. cit.*, Maniruzzaman, *Bangladesh 1975*, *op. cit.*

70 *Ibid.*

71 Barua, *op. cit.*, see Chapter 13. It is not to say that there was no factionalism within the Bangladesh Army. Indeed there were successive coups and counter-coups but in their attitude toward supremacy of the martial law administration over the civil administration most of the military officers seemed to have hardly any difference.

72 Rashiduzzaman, *Patterns Bangladesh*, *op. cit.*

73 Martial Law took precedence over the constitutional law. Parliament was dissolved.

from it as set out in the Constitution. The Constitutional provisions regarding acquisition, nationalisation and requisition of property were amended to make room for compensation⁷⁴. The military administration also paved the way for a future change in nationalisation policy by making provisions in the Constitution allowing the articles regarding nationalisation to be amended by a simple majority vote in the Parliament instead of the previous requirement of a two thirds majority⁷⁵. Simultaneously in pursuit of political legitimacy a referendum was held to validate General Ziaur Rahman as the President and national elections were promised at the end of 1978. With the same end in view economic policies were being revised to attract domestic and foreign investments. There was no instance of further nationalisation after the military take over⁷⁶.

Planning Strategy

As the dialectical contradiction set out above continued to persist, the planners in Bangladesh were left in the position to plan without a clear political consensus⁷⁷. The First Five Year Plan of Bangladesh for the period 1973-78 (FFYP) was, therefore, without any firm political commitment from the political leadership leaving it

74 *Constitution, op. cit.*, Article 42 read with the Proclamation (Amendment) Order, 1977 in April, 1977.

75 *Ibid.*, *Constitution, op. cit.*, Article 47 (2).

76 M. Rashiduzzaman, "Bangladesh in 1977: Dilemmas of the Military Rulers", *Asian Survey*, Vol. 18 (1978), pp. 126-134.

77 See, Anisur Rahman, *Priorities and Methods, op. cit.*, p. 16. Rahman was a member of the Planning Commission under the Awami League regime. Also see Emajuddin Ahmed, "Development Strategy in Bangladesh: Probable Political Consequences", *Asian Survey*, Vol. 18, (1978) pp. 1168-80. Rahim, *Planning Strategy, op. cit.* Inside account may be had from Islam, *Development Planning, op. cit.* specially pp. 33-39 and pp. 21-23.

without the necessary political support. The FFYP, no doubt, made an attempt to outline a concrete framework and strategies for achieving the socialistic goals. But in the absence of a political commitment the planning for socialist development of Bangladesh as embodied in the plan document was destined to be abortive. An examination of the FFYP document reveals that the authors of the Plan were not unaware of the unsure grounds on which they were treading. The Plan was a comprehensive document which attempted to give shape to the policies of the government and its socialist intentions as enshrined in the Constitution. But the Plan was also cautious and took note of the fact that

the ideal of socialism cannot be translated into reality as easily or as quickly as the other three principles of State policy.⁷⁸

The Plan observed that at the time of its preparation socialism remained a vision and a dream. Although some steps were already taken in this direction much more was needed to be done if Bangladesh was to avoid the painful processes which countries had to go through in their quest for a socialist way of life⁷⁹. The Plan listed the removal of the capitalist system of income distribution; of the private ownership of the means of production; and of the precapitalist mercantile or feudal forms of production relations as necessary preconditions for socialist development. Depending upon the objective condition of the society this may have to be done in stages. Yet no plan for socialist transformation can afford to ignore the basic necessity of fulfilling these preconditions. A programme for a socialist trans-

⁷⁸ FFYP, *op. cit.*, p. 1.

⁷⁹ *Ibid.*

formation, the Plan pointed out, would have to identify clearly the form and manner in which the mercantile and feudal production relations function and the measures to be taken to eliminate them. In an under-developed economy like Bangladesh, the Plan pointed out, the socialist transformation of the economy must accompany the growth of productive forces. Anything which hampers increase in productivity or growth of productive forces and dissipate the meagre resources in unproductive activities and unnecessary consumption is in contradiction with the basic principles of socialism⁸⁰.

As the authors of the FFYP saw it, for a well formulated socialist plan, the basic premise had to be that the government and the ruling party would have the will and determination to transform a society where productivity, discipline and savings were the basic tenets of economic activity⁸¹. The Plan therefore, called for a political cadre with firm roots in the people and motivated by the new ideology and willing to live and work among the people as one of them. Finally, the Plan realised that

execution of policies and programmes depends entirely on the political will of the country and as such on the commitment and the effectiveness of the leadership, the ability of the party in power and mobilise the people and the dedicated functioning of the government machinery.⁸²

To the authors of the FFYP, planning appeared, undoubtedly to be more a political process than merely an economic device. However, it seems that the planners remained uncertain about the commitment of the political leadership. According to a World Bank report, the First Plan suffered from the lack of any clear conception where the

80 *Ibid.*, p. 2.

81 *Ibid.*, p. 3.

82 *Ibid.*, p. 2.

economy was headed and did not provide firm guidance on the central issues facing the economy⁸³. This only tended to bring out the inherent contradiction between what the planners had conceived and the political leadership had intended.

The uncertainties of the planners did not subside with the preparation and launching of the Two Year Plan 1978-80⁸⁴ during the military regime. As the military administration effected profound changes in the national philosophy the planners were inclined to emphasize the transitional nature of the political economy⁸⁵. The planners noted that during the post-Awami League administration pragmatic economic policies were being gradually introduced, new emphasis was being laid and new dimensions being added in priorities and strategies. There were new incentives provided to enable the private sector to play its "legitimate role" in development⁸⁶. Yet in the absence of political decisions on crucial issues of land reform or determination of relationship between public and private sector, it was decided to launch a short-term plan until the political consensus was available through promised future general elections. As reflected in the draft of the Two Year Plan (TYP) in March 1978 the plan authors seemed to have viewed the TYP and its policy implications as "short term affairs"⁸⁷. The TYP was apparently construed by them as a launching pad for the Second Five Year Plan 1980-85. The TYP was formulated taking "specific cognizance" of the socio-economic objectives

83 International Bank for Reconstruction and Development, *Bangladesh Development in a Rural Economy Volume 1: The Main Report*, September, 1974, p. 24.

84 TYP, *op. cit.*, p. 291.

85 *Ibid.*, *Supra.*, Introduction.

86 *Ibid.*, p. 149.

87 *Ibid.*, p. 291.

of the military regime as declared in the "Nineteen Point Programme"⁸⁸ which envisaged "social and economic justice" in all spheres of national life.

The TYP expressed "uncertainties" about the relative roles of the private sector and the nationalised industries. The Plan document noted that the government was "keen to enable the private sector to play its role as envisaged in the Constitution and the laws of the land"⁸⁹ and various steps were taken by the government to provide "a climate for private investment". Even then the TYP posed the question

as to whether these developments in public and private sector would stabilize as a settled feature so as to depict a trend or they will pass as transient features in the economy.⁹⁰

The framers of the TYP, therefore, thought it

discreet to wait for certain trends and patterns to emerge before undertaking a long term planning.⁹¹

Not surprisingly, the independent observers in Bangladesh found the TYP suffering from confusions, vagueness and evasiveness - essentially "an extension of the First Five Year Plan" that failed to make a "breakway from a conventional plan making"⁹². Having no conception of the society to be developed, as admitted by the planners themselves,

88 See Government of Bangladesh, Ministry of Information, *Address to the Nation by the President of the People's Republic of Bangladesh Major General Ziaur Rahman*, Dacca: April 30, 1977, (Dacca: Bangladesh Government Press, 1977) pp. 6-7. The speech outlined the military government policies and programmes.

89 TYP, *op. cit.*

90 *Ibid.*, p. 25.

91 *Ibid.*, p. 25.

92 *Report of the Panel of Economists on the Preliminary Draft of the Two Year Plan (1978-80)* (Dacca, March, 1978) Mimeo, p. 5.

the exercise was bound to suffer from aimlessness. As the planners were not sure whether definition of the socio-economic characteristics of the society had been meaningfully identified by the Military Administration, the various objectives set in TYP were often in conflict with one another. Notwithstanding the hesitance expressed in the TYP the development strategy adopted by the military regime was clearly designed to encourage private enterprise, both local and foreign⁹³. In essence, this strategy was similar to what was practised during the Pakistan period. The policy was likely to result in segmented economic growth both in class and regional terms⁹⁴. As in industry sector, strategy in agriculture consisted in promoting through massive subsidies to the farmers. The emphasis on technology, tended to benefit the large and middle farmers and enrich them substantially. All these were going to increase inequality in income distribution⁹⁵. This was obviously against the avowed goal of the military regime to ensure "social and economic justice".

Industrial Investment Policies

The Industrial Investment Policy for 1972-73 was announced in January, 1973 in order to help clarify the position in respect of industrial policy in general and private sector in particular. It was the first such step taken by the government since nationalisation in March, 1972. The delay in framing and announcing an industrial policy

93 One of the military regime's 19 point policies and programme was "to give necessary incentive to the private sector for the economic development of the country", see also Emajuddin, *op. cit.*

94 *Ibid.*

95 *Ibid.* Also see Rizwanul Islam, "What Has Been Happening to Rural Income Distribution in Bangladesh?" *Development and Change*, Vol. 10 (1979), pp. 335-401.

had in fact stopped any expansion in the private industrial sector. Lack of clarification in respect of the constitutional provisions created hindrances⁹⁶. There were also some enterprises which were not nationalised but were simply taken over by the government. The ownership of these enterprises remained with the private sector. In the absence of an industrial policy clarifying these aspects the private sector was naturally unwilling to come forward for investment⁹⁷. It was reported that the moneyed class were transferring their capital abroad obviously through clandestine means as foreign exchange regulations did not permit unlimited transfers⁹⁸.

The Industrial Investment Policy stated that the government had to assume

the enormous responsibility of replacing the entrepreneurs and managers for efficient and effective management in the public sector.⁹⁹

96 The noted commentator and author Abul Mansur Ahmad wrote on January 5, 1973 in the *Daily Ittefaq*: Because of the lack of clarifications regarding the constitutional provisions industrialization has not only been hindered but it is virtually at a stand-still. This situation can be redressed through enunciating an industrial policy. This has not been unfortunately done by the government. [Translated from Bengali].

97 *Ibid.*

98 Governor, Bangladesh Bank said on October 1, 1973 that transfer of funds abroad was one of the causes of economic crisis. *The Daily Ittefaq*, 2 November 1972. Also see, A.M.A. Rahim, "An Analysis of Smuggling in Bangladesh" in *Bangladesh Economy Problems and Issues*, ed. A.M.A. Rahim, (Dacca: University Press Ltd., 1977) pp. 107-131. An official estimate of the extent of smuggling out of Bangladesh between January 1972 and August 1975 was U.S. \$4000 million (Taka 60,000 million), W.B. Reddaway and Md. Mizanur Rahman, "The Scale of Smuggling out of Bangladesh" Research Report Series No. 21, Bangladesh Institute of Development Studies. Government of Bangladesh, Ministry of Industries, *Report of the Price Stabilisation Committee*, (Dacca: June, 1973).

99 *Investment Policy 1972-3*, op. cit.

The document noted that the situation obtaining in Bangladesh just after the Liberation

presented a historic opportunity to lay the foundations of socialism in the industrial sector of the economy.¹⁰⁰

The stated aim of industrial development was:

- (i) to meet the basic needs of the people;
- (ii) to reduce the dependence on imports for meeting those needs;
- (iii) proper exploitation of natural resources;
- (iv) creation of employment opportunities;
- (v) to build up a sound industrial base¹⁰¹

and within a planned socialist framework.

The industrial policy recognised that a limited private sector has a role to play within a planned framework. Their role was however, restricted to small and medium sized industrial units with fixed assets not exceeding Taka 2.5 million. The policy also placed moratorium on nationalisation of enterprise for ten years having assets less than Taka 2.5 million. Foreign investment was sought to be made attractive while retaining majority ownership and control of such investments directly with the State.

In sum, the Policy for 1972-73 was to use nationalisation to restore the existing industries abandoned by their owners; to replace the entrepreneurs and managers for efficient and effective management in the public sector; and to lay the foundations of socialism in the industrial sector of the economy. It claimed that

the role of the private sector has been clearly delimited and our commitment to a socialist economic system clearly proclaimed¹⁰²

100 *Ibid.*

101 *Ibid.*

102 *Ibid.*

Experience, however, showed that it was difficult to achieve growth in the private industrial sector while conforming to the guidelines propounded in the first industrial policy¹⁰³. The private sector remained stagnant since the adoption of the policy in 1973. Devaluation¹⁰⁴, rising price level¹⁰⁵ in the local and international market, high cost of machinery, land and labour made it immensely difficult to set up new industries in the private sector within the constraints of investment ceiling. The restrictions imposed on foreign private participation in management and capital investment with local private investors seemed to have been great dampers. Virtual collapse of the economy¹⁰⁶ in 1974 compelled the Awami League administration to make a

103 *Ibid.*

104 Immediately after Liberation Bangladesh Taka was devalued. However Taka rate of exchange rapidly became excessively overvalued. Currency was again devalued by 58 per cent in 1975.

105 According to government figures the consumer's price index rose to 430 points in December, 1974 from the base of 100 in 1969-70. The government appointed a Price Stabilisation Committee in January 1973 consisting of eminent economists of the country and high officials in the economic ministries. The Committee submitted its report in June, 1973. See for an account of inflation in Bangladesh after Liberation, A.M.A. Rahim, "Some Aspects of Inflation in the context of Bangladesh", *Bangladesh Bank Bulletin*, Vol. 3, (September, 1973) M. Sohrab Uddin and Syeda Rabeya Begum, "Some Aspects of Money and Inflation in Bangladesh", *The Business Review*, Vol. 3 (1977), Government of Bangladesh, President's Secretariat, *White Paper on Economic Situation in Bangladesh*, (Dacca: Government Press: September, 1975) p. 5, *Report of the Price Stabilisation Committee* made a comparative study of some commodities of basic necessity for the consumer and the economy in respect of their prices between time periods and as between wholesaler, retailer and manufacturer/ c & f landed cost and sought to identify the factors leading to increase in prices. The Committee study indicated the main factors for the abnormal rise in prices were (i) substantial decline in the supply of commodities and (ii) a high increase in the money supply.

106 See *Supra*. fn. 60.

policy shift in its industrial programme¹⁰⁷. The government was in desperate need of foreign economic aid¹⁰⁸ to tide over the crisis. The Awami League Government, therefore, announced a new investment policy in 1974 primarily with a view to attract much needed foreign investment. The "New Investment Policy"¹⁰⁹ as it was called raised the ceiling on private investment to Taka 30 million from the previous Taka 2.5 million in the first policy. Foreign private investment and participation was permitted in collaboration with both government and private entrepreneurs. Previously foreign collaboration was limited only to the public sector. Ceiling of foreign investment was totally withdrawn. A moratorium on nationalisation was declared for a period of 15 years from the date of going into production of the enterprise which was previously 10 years from the date of investment. It was also provided that compensation would be paid on fair and equitable basis in the event of nationalisation of any industry after this period. A tax holiday was declared for seven years and other incentives for private investors were announced.

The military regime, however, brought a fundamental change in the approach of the government towards the role of private sector in industrial development. The military administration took steps for a "drastic revision" of the investment policy immediately after its

107 The Awami League Government announced a new investment policy on 16 July, 1974; the ceiling of private investment was raised, a moratorium on nationalisation was announced and room was made for foreign private investment.

108 It was estimated that Bangladesh would need aid approaching U.S. \$1,500 million annually for decades to overcome its difficulties. See Faaland and Parkinson, *op. cit.*, p. 84.

109 Government of Bangladesh, Ministry of Industries, "New Investment Policy", *The Bangladesh Gazette Extraordinary*, 16 July 1974.

assumption of power¹¹⁰. The reasons for a "Revised Investment Policy" as it was called after only 18 months of the New Investment Policy were given as "higher cost of investments and inadequate response of the private sector"¹¹¹. It was stated that

for reaching the goal of mobilisation of investment funds and rapid industrialisation, the private entrepreneurs should be afforded adequate scope and facilities for setting up industrial enterprises...¹¹²

The revised policy raised the ceiling of private investment further to Taka 100 million although the reserved list of 18 industries were retained in the public sector¹¹³. Both local and foreign collaborators were allowed to participate with the public sector in setting up of industries falling within the reserved list but outside jute, textiles, sugar, arms and ammunitions and allied defence equipment, atomic energy, air transport, telephones and cables, telegraph and wireless apparatus and generation and distribution of electricity. Although major share was to be retained by the public corporations, management contracts could be given to private investors "on considerations of economy, technology and management"¹¹⁴. The moratorium clause on nationalisation was deleted. It was reiterated that any industry nationalised would be paid compensation on fair and equitable bases. Tax holiday and other incentives earlier introduced were re-emphasized. Arrangements for institutional financing for small industries - "particularly agro-based,

110 Government of Bangladesh, Ministry of Industries, *Revised Investment Policy*, (Dacca: Government Press, 1975).

111 *Ibid.*

112 *Ibid.*

113 For the items in the reserved list see, *New Policy*, *op. cit.* Schedule A; Number of industries reserved for the public sector was later reduced to only 8 from 18. See, Government of Bangladesh, Department of Industries, *Guide to Investment in Bangladesh*, (Dacca: May 1977).

114 *Revised Policy*, *op. cit.*

agro-supporting and export-oriented industries" were provided. The stock exchange was to be reactivated to mobilise private savings and channel them in industrial investments. Finally, the government decided to "disinvest" some industrial units which were declared abandoned and were placed under public corporations for management¹¹⁵.

Promoting Capitalism

Public posture of the Awami League Government was against the development of large scale private capitalism. However, as most of the enterprises were left abandoned by the non-local owners the only freedom of action left to the government was in respect of the large scale jute, cotton and sugar factories owned by the Bengalis. These enterprises accounted for a fairly small proportion to the industrial assets in Bangladesh. Even so, the Awami League was not committed to their nationalisation. Yet the decision to nationalise the major large scale industries was the first important action on which the claim to socialism by the Awami League was primarily based. The radicalism of any government in this context needs to be tested, however, against its overall policies towards industry, agriculture and rural society.

The land policy of the Awami League declared a land ceiling per family to about 33 acres. This reduction of ceiling, if considered alone was hardly of any significance. During the Pakistani administration too the ceiling of landholding was reduced to 33 acres along with the abolition of landlordism. The abolition of the Zamindari system, resulted merely in a transfer of the revenue surplus from the landlords to the State and thereby helped to establish a kind of State landlordism¹¹⁶.

¹¹⁵ *Ibid.*

¹¹⁶ Badruddin Umar, "Agrarian Economy and Nationalisation of Industries" *The Holiday*, 9 April 1972.

The decision to return to a ceiling of landownership of 33 acres amounted to a rejection of any serious attempt at land reform¹¹⁷.

The State landlordism created an elaborate machinery for revenue collection that ate up what was collected in the form of land revenue¹¹⁸.

The agrarian economy was left untouched. The land policy contained proposals for increasing productivity of small peasants by introducing co-operative farming and improved methods of agriculture but the worst remnant of feudalism - share cropping was not affected by the policy measures introduced by the Awami League. The survival of share cropping in rural economy meant the survival of the forces which not only restrained economic growth but also subverted all attempts earlier to introduce collective farming, co-operatives etc.¹¹⁹

The Awami League Government attempted to resolve the problem of the rural economy through its decision to abolish land revenue on all land holdings up to about 8 acres. This meant that over three quarters of all cultivated land was exempted from the tax without any reasonable basis¹²⁰. In the absence of land reform and to increase agriculture growth the government strategy was to develop the functional

117 *Ibid.*

118 More than 47 per cent of the land revenue receipts was spent as collection costs before 1971. See for detailed data in *Statistical 1973, op. cit.*, p. 105.

119 In the rural and agricultural Bangladesh 8.4 million households were classified as landless according to the Summary Report of 1977 Land Occupancy Survey of Rural Bangladesh. As against this aggregate number of households in Bangladesh was 12.6 million in 1973. An estimated 7.8 million households made payments in share (kind) or in cash for the use of land taken in from others. See, *Statistical 1978, op. cit.*, pp. 121, 124 & 94. See for an analysis of the problem, Geof Wood, "Class Formation and 'Antediluvian' Capital", *IDS Bulletin*, Vol. 9 (February, 1978), pp. 39-43.

120 When one considers the very meagre source of governmental revenue in Bangladesh, the abolition of land revenue appears to be unjustifiable and politically motivated.

co-operative based on modern inputs. Elements of subsidy in the form of cheap credit and under-priced inputs supplied by the public sector agencies tended to concentrate these benefits in the hands of the bigger landowners¹²¹. In view of the large proportion of landless labour¹²² in the rural economy an obvious strategy would have been to pursue a land policy that would increase the size of small and uneconomic farms and redistribute land in favour of the landless. The government's resort to the conventional strategy to return to the ceiling of 33 acres therefore, belied the Awami League claims for radicalism.

In the nationalised sector, political patronage became the chief consideration in the distribution of managerial jobs and licences for industries. A group of new rich class was created who had access to political power and utilised that contact to make their fortunes by working as middlemen between the real business and the government¹²³. A large surplus in private hands was generated, often at a direct cost to the public sector enterprises. A political commentator observed that the government of the Awami League had nationalised industries and trading houses in order to organise their "open and disguised plunder" of the existing wealth of the nation and in order to promote capitalist interests in a particular manner although they claimed their policy of nationalisation as socialist¹²⁴. The nationalisation policy of the Awami League helped to promote capitalism and capitalists interests through three different methods of implementation: Firstly, the Awami

121 *Supra*, Chapter I ; See also Emajuddin, *op. cit.*, pp. 1176-79.

122 *Yearbook 1979*, *op. cit.*, p. 145, Table 4.4.

123. Khan, *Economic Policies*, *op. cit.*, pp. 17-19.

124 Badruddin Umar, "On the Policy of Disinvestment", *The Holiday*, 1 February 1976.

League Government made use of its power to appoint administrators for the abandoned and nationalised enterprises. Initially 221 enterprises were placed under the newly created Sector Corporations to run the nationalised industries. In addition, 311 enterprises were placed under various management boards constituted for different regions¹²⁵. A regional management board consisted of officials, representatives of labour and members of parliament. The management boards were empowered to appoint administrators/managers with a view to carry on the business of the respective enterprises. The administrators were mostly selected¹²⁶ from outsiders out of personal choice of the political leaders without having regard to the educational or professional competence of the appointee. Appointed by political patronage, these administrators, by and large, proved to be greedy, unscrupulous and dishonest¹²⁷. Subsequently verified in about 10 per cent of the enterprises moveable assets were found to have been removed by some of these administrators¹²⁸. Some of these administrators later bought the enterprises under their management when those were disinvested - as chairmen of the employees' co-operatives formed and registered overnight¹²⁹. The extent of corruption on the part of these administrators can be gauged from the fact that, after the change of the government in 1975, a considerable number of these administrators were suspended, removed or apprehended and taken to police custody for corruption and

125 Figures collected from the Department of Industries. Appendix Table 8.

126 Interview with the officials of the Department of Industries who served at the time of such appointments.

127 *Ibid.*

128 *Ibid.*

129 *Ibid.*

misappropriation of the properties of the enterprises they were supposed to look after¹³⁰. According to some rough estimates, spare parts and raw materials that were missing from various industries after Liberation could be worth Taka 5000 million¹³¹. The administrators were under the influence of the ruling party. In order to ensure their plunder they had also given extra jobs to their own chosen people who had neither any skill nor any willingness to organise and raise production. Some of the Bengali entrepreneurs were again allowed to administer their enterprises even after nationalisation, ostensibly due to managerial vacuum in the country after Liberation¹³². This anomalous decision seemed to have given safe passage to the transfer of the resources from those enterprises to the private hands. The situation became embarrassing for the government and there was a proposal to constitute a high powered committee to inquire into the activities of the administrators and their political associates including allegedly members of the Constituent Assembly¹³³. The veteran Communist leader Moni Singh observing the situation made it publicly known that without discarding the dishonest and corrupt elements from amongst the Awami League it would not be possible to establish socialism. He said:

An important segment of the ruling party is still devoted to decaying feudal and capitalist system. Corruption and nepotism are deeply instilled in them.¹³⁴

Secondly, distribution of the scarce entitlements in the form of permits and licence was a potent device. In spite of nationalisation of large

130 *Ibid.*

131 The President of Dacca Chamber of Commerce and Industry alleged this amount was looted from different industrial enterprises during the period immediately after Liberation. See, *The Holiday*, 28 August, 1977.

132 Sobhan, *Nationalisation*, op. cit.

133 *The Daily Ittefaq*, 8 August 1972.

134 *The Daily Ittefaq*, 3 December 1972.

scale industries, banks and insurance companies, the distribution and marketing channel of the industrial products were left in the private sector. A systematic distribution of entitlements in a situation of extreme scarcity of goods and services caused by the declining production and interrupted trade in the wake of the Liberation War, became the major source of a primitive form of capital accumulation. The indentors, dealers in permit and licences of various sorts and distributors reaped the optimum premium out of a starved market for industrial products. With the connivance of the ruling party the chosen distribution channel could exert monopoly control over the market. The most important of the entitlements were the import licences. The imposition of strict exchange control to support a highly over-valued Bangladesh currency tended to enhance the desirability of possessing such import licences. The mechanism, in fact, meant a heavy concealed tax on the manufacturers of export goods and a passing of the profits as concealed subsidies to the recipients of import licences. The beneficiaries of this policy were the recipients of the import licences because they could appropriate large scarcity premium on the imports made against the licences. The importer paid Taka equivalent of foreign currency needed to import at the officially fixed rate but was able to extract a much higher price from the local consumer. Even a considerable portion of imports made under the auspices of the State trading corporation were distributed through the private traders who did not hesitate to reap the scarcity premium. Similarly, the products of the nationalised industries were distributed through private traders who took the opportunity to make best use of the starved market. The government policy to rely on private channel

of marketing and distribution in a situation of severe shortage and excess demand amounted to a transfer of surplus to private distributors. Thus a mechanism of capital accumulation was set up to enrich the private traders largely at the expense of what could be the profits of the nationalised industries¹³⁵. Trade and industry was managed and run in such a manner through the support of the ruling group that it was possible to reap large additional surpluses in the form of unearned income by raising the scarcity premium in the private sector. A conservative estimate¹³⁶ of the surplus generated from the sale of domestically manufactured cotton textiles and yarn and cigarettes and the scarcity margin of consumer goods in 1972-73 alone came to about Taka 3000 million, an amount equivalent to more than 6 per cent of the GDP of Bangladesh in the same year. The entire amount was appropriated by the private sector without rendering any contribution to the economy. Untaxed income worth Taka 1300 million declared by different individuals to the taxation authorities was obviously far short of all realistic assumptions regarding undeclared volume of money in private hands¹³⁷. The President of the Dacca Chamber of Commerce and Industries made no revelation when he stated that by the end of 1977 at least an amount of Taka 10,000 million was concentrated in the hands of a very limited

135 See for a relevant theoretical discussion in Maurice Konopnicki, "Interference by the Private Sector in Enterprises of Commercial Interest in the Performance of their Economic, Social and Ecological Functions", *Annals of Public and Cooperative Economy*, Vol. 48, 1977, pp. 135-6.

136 A.M.A. Rahim, "Some Comments on the Five Year Plan and Planning in Bangladesh" mimeographed. Appendix-Table H quoted in A.M.A. Rahim and A.H.M. Nuruddin Choudhury, "Some Fundamental Issues on Economic Management in the Context of Bangladesh" in Rahim, *Bangladesh Economy*, op. cit., p. 14.

137 Hossain Khasru, "Public Sector, Black Money and Prices", *The Holiday*, 28 August 1977.

few in a country whose average GDP since Liberation has been to the order of Taka 55,000 million¹³⁸.

Thirdly, the Awami League made use of its labour front to extend the activities of wanton patronage and to paralyse the genuine trade union activities. The natural expectations of the workers after Liberation and nationalisation was exploited by the pro-Awami League labour leaders. The members of the labour front of the Awami League and its militant volunteer corps, in the name of maintaining industrial peace, took forcible possession of some of the enterprises and offices of the rival trade unions. During the pre-Liberation period the usual strategy of some of the professional labour leaders was to incite the industrial workers against the owners to create conditions not congenial to smooth production and for adding to the list of demands on the one hand and accept monthly allowances behind the scene from the capitalist owner on the other¹³⁹. Nationalisation deprived these labour leaders of these sources of augmenting their income. These labour leaders, therefore, resorted to various tactics in attempting to plunder the assets of the enterprises in the public sector. With a view to this they started a systematic campaign of vilification against the enterprise managers. Having reached some understanding with the local influential political personalities attempts were made to seduce the managers to join in the plunder. Since they had political patronage the labour leaders could exert all sorts of pressure on those who did not easily succumb to such machinations¹⁴⁰. The inability of

138 Atiqul Alam, "Ferretting Out the Black Money", *The Holiday*, 9 September 1977.

139 Wakefhal, "Industries Operated by the Government", *The Daily Ittefaq*, 15 November 1973.

140 *Ibid.*

the Awami League Government to declare a labour policy assisted the unscrupulous labour leaders. The lack of restrictions on the activities of the pro-Awami League labour leaders was facilitated by the rising authoritarian tenets of the Awami League administration. Neither the Awami League Government nor the military rulers enacted suitable labour legislations to safeguard the legitimate rights of the workers. The Awami League policy in 1972 took away freedom to belong to trade union and right to organise and bargain collectively including right to strike. There was practically no provision for workers' participation in management. The right to collective bargaining in public enterprises was withdrawn in 1973. The Industrial Relations Ordinance took away the rights of new trade unions and put restrictions on the right to be a member of a trade union on certain category of workers. The concerted efforts to paralyse the genuine trade union activities created conditions that were not congenial to productivity but were helpful to the pursuit of self-interests of the Awami League henchmen.

A Place for the Private Enterprise

The private sector in Bangladesh seems to have been spoonfed both before and after Liberation. The slender growth of Bengali entrepreneurship was not the result of personal initiative, drive, inventiveness and imagination¹⁴¹. It was rather the outcome of a political decision to create artificially a wealthy Bengali industrial class so as to form a significant bastion of support for the prevailing rulers. It was also intended to help satisfy and appease the growing Bengali restiveness at the concentration of wealth in the hands of a

141 *Supra.* p. 76.

few Pakistani capitalists. After Liberation, under the protective wings of the Awami League rulers the chosen people of the party amassed a huge wealth through, as earlier mentioned, the patronage of permits, licences, dealership and smuggling across the borders. However, despite repeated assurances by the ruling elite and revisions in the industrial investment policies with increasingly more pronounced bias towards the private enterprise neither the new rich class nor the old ones came forward to invest in industrial ventures¹⁴². There were apprehensions that there might be official inquiries about the sources of their capital and these deterred the prospective entrepreneurs. The military Administration, therefore, decided to give safe passage and accommodate these "unutilised and idle fund" popularly known as "black money"¹⁴³. The declared intention of the government was to bring these funds

into productive stream and for mobilising investment funds for investments or purchase of disinvested units.¹⁴⁴

142 A representative member of the private sector stated that the industrial investment policy of the government failed to ensure law and order or industrial harmony in the country. *The Daily Ittefaq*, 30 August 1973. In a post-editorial column the Daily Ittefaq said, "there is hardly any willingness for private investment in industry. Many of the moneyed class are transferring their capital abroad, keeping in foreign banks or investing in foreign markets...as if the country has reached a saturation point in respect of economic and industrial development", *The Daily Ittefaq*, 2 November 1973.

143 Ershad Mazumder, "Changing Time for Black Money", *The Holiday*, 18 January, 1976. Mazumder informs that the political touts managed unearned income of Taka 8000 million during the period following Liberation. A large portion of these funds were spent on conspicuous consumption. In addition the holders of these funds engaged themselves in indenting and other high and quick return yielding commercial activities.

144 The Government Press Note, 8 January 1976.

Once legitimized, the proverbially timid and nascent indigenous capitalist class demonstrated a strong determination to cut out a place of its own in the economy. To begin with the strategy consisted in keeping a low profile and making requests and "humble submissions" for ensuring a suitable "environment" so that private sector could contribute to the economic growth of the country. Representations were made on behalf of the private enterprise interests for enforcement of discipline in labour relations, simplification of procedures relating to establishment of new industries, ensuring import of necessary raw materials and spares, a realistic labour policy and annulment of provisions regarding nationalisation up to 15 years and it was pointed out that the measures would be helpful for the growth of the private sector investment in industries¹⁴⁵.

The military regime continued the follow-up actions in respect of the Revised Investment Policy announced in December, 1975 General Ziaur Rahman declared that

the government is ready to extend all possible support to the private sector for utilising the full potential of the private entrepreneurs in stepping up of the productive economic activities in the country.¹⁴⁶

Following the policy in December 1975 to disinvest some of the abandoned enterprises that were earlier placed under the Sector Corporations, the procedure for disinvestment of individual units was prepared. To facilitate the process, a Disinvestment Board was set up. Decision to return the specialised textile units to their previous Bangladeshi owners was taken. It was also decided that jute twine mills would be

145 The government as a result took cognizance of "inadequate response of the private sector" in its Revised Investment Policy declared on 7 December, 1975.

146 *The Bangladesh Observer*, 4 August, 1976.

disinvested or returned to their previous owners. The decisions to return/disinvest specialised textile units and jute twine units have special significance because jute and textile belong to the hard core public sector. It was, however, argued that the specialised textile units were small units and being responsible for production of specialised items were operationally more suitable to small scale management and that the decision to return/disinvest jute twine mills was just an act of rationalisation as the specialised jute products were included in the schedule of industrial investment in the private sector¹⁴⁷.

The decision to make payment of compensation for the nationalised enterprises to their previous shareholders was also being vigorously implemented. The payments were to be made in phases - 20 per cent in 1975, 30 per cent in 1976 and the rest in 1978. Payment was being made both to local and foreign shareholders of the nationalised enterprises. A total of 15,377 claims from former shareholders were received by the government until December, 1977¹⁴⁸. In monetary terms such claims involved an amount of Taka 320 million. Of the claimants only 175 were foreigners and 225 claims were from financial institutions and the rest were ¹⁴⁹ nationals of Bangladesh.

Liberal credit facilities from the financial institutions were allowed for industrial financing in the private sector. In some cases like priority and export oriented industries, the government would underwrite almost all expenses from the commissioning to the start of

147 Government of Bangladesh, Ministry of Industries, Department of Industries, *Industrial Investment Schedule for Two Years (1976-78) for Private Sector*, (Dacca: Government Press, 1976) p. 22.

148 *The Holiday*, 5 February 1978.

149 *Ibid.*

operations. A review of lending activities of the financial institutions shows that by 1976-77 the private sector was getting an edge over the public sector. The Bangladesh Shilpa Bank (BSB) sanctioned 90 per cent of its loans to the private sector in 1976-77 compared to 17 per cent in 1974-75 and 20 per cent in 1973-74¹⁵⁰. Tax holidays, rebate on payment of customs duties for import of capital equipment and raw materials, freeze on the payment of interests accumulated over the principal borrowed, expert counsel provided by lending agencies, policies sheltering the domestic market against unwarranted competition and thus assuring profitability were some of the important facilities granted to the local entrepreneurs. There was a reduction of up to 75 per cent in rates of various fees charged by the financial institutions for the private sector investors. The Investment Corporation of Bangladesh (ICB) was set up in 1976 to provide institutional support to the stock market. However, the stock exchange could not play an effective role in developing capital market as supply of scripts for transaction was extremely limited. Therefore, a proposal was mooted to disinvest the shares and stocks of a number of profitable public companies held by the government, either as direct investment or as abandoned property¹⁵¹.

The liberalisation and incentive packages of the import and

150 Government of Bangladesh, Ministry of Finance, *Resume of the Financial Institutions 1977-78*, (Dacca: Government Press, 1978) pp. 71-72.

151 The government held shares worth about Taka 43 million which was previously owned by the non-locals in eight foreign companies operating in Bangladesh. Shareholdings of the Bangladeshi owners were, in contrast, valued at only Taka 2 million. According to the proposal government held shares were to be disinvested in phased manner. It was hoped that such a measure would help to activate the Stock Exchange which was opened nearly five years after Liberation. Source: Ministry of Finance, Government of Bangladesh.

export policies increasingly favoured the private sector in terms of allocations as well as infrastructural facilities¹⁵². The Presidential Advisor in charge of the Ministry of Commerce publicly announced that the trade policies of the government were formulated with a view to encouraging the shy private sector to contribute adequately in the development of the economy. He categorically stated that the import policy of the government aimed at "a reduction of the public sector and expansion of the private sector"¹⁵³. The share of the public sector continued to decrease and private sector to increase in the overall total import plans. The private sector commanded the whole of the import of essential commodities under Wage Earners' Scheme¹⁵⁴. Most of the financing for private sector was provided through cash and guaranteed sources of foreign exchange. In contrast most of the funds for public sector import was dependent on external assistance programme based aid, credit, grants or loans and hence uncertain.

152 The Presidential Adviser in charge of the Ministry of Commerce described the import policy declared that it was "the most liberal import policy for many years - even more liberal than the policies of the last days of Pakistan". The import and export policies were formulated with a view to encouraging the otherwise shy private sector. See "Bias Towards Private Sector" *The Holiday*, 10 July 1977.

153 *Ibid.*

154 The Wage Earners' Scheme enables Bangladesh nationals to import specified categories of commodities out of foreign exchange remittance made by Bangladesh nationals resident and working abroad. Over the years since Liberation remittance by Bangladeshis living abroad have become a major source of foreign exchange earning in Bangladesh. Out of the national import bill, of Taka 14,500 million in 1978-79 Wage Earners' Scheme was projected to account for Taka 1600 million. *The Holiday*, 9 July, 1978. Government of Bangladesh, Ministry of Commerce, "The Import Policy for 1978-79", *The Bangladesh Gazette Extraordinary*, 30 June, 1978, Actual import under WES in 1976-77 and 1977-78 were for Taka 896 million and Taka 1290 million respectively. Government of Bangladesh, Ministry of Finance, *Economic Survey 1978-79* [In Bengali] (Dacca: Government press, 1979), p. 146.

The share of financing import bills for the private sector from cash and guaranteed sources was increased year to year as compared to the public sector¹⁵⁵. With so much government support the representatives of the private sector publicly declared:

The understanding between the government and businessmen and industrialists is now increasing. The tendency of mutual distrust and blame amongst the government, businessmen and industrialists since Liberation is now a thing of the past.¹⁵⁶

The declared intention of the Military Government in formulating a new industrial investment schedule for the private sector was to create a base for long term industrial development. This meant that the government was assigning a dominant role to the private sector in the task of industrialisation. The upward trend in the private sector investment^Q was quite spectacular as shown below in the table:

TABLE 3

Private Sector Investments Since 1973 in Industries ¹⁵⁷

<u>Year</u>	<u>Number of Units</u>	<u>Investments</u>		<u>Indices Sanctioned:Actual</u>
		<u>Sanctioned</u>	<u>Actual</u>	
		(*in million Taka)		
1973-74	295	87	82	100:100
1974-75	276	150	133	172:162
1975-76	265	702	198	802:240
1976-77	439	810	450	927:546
1977-78	552	2092	750	2392:910
	<u>1827</u>	<u>3841</u>	<u>1613</u>	

The investments in the private sector were increasingly being spread over in diverse fields. In the past, the Bangladeshi private sector

155 "Private Sector Pampered", *The Holiday*, 9 July 1978.

156 Statement of the President of Chittagong Chamber of Commerce and Industry, *The Daily Ittefaq*, 1 January 1976.

157 I.B.R.D. : *Bangladesh Issues and Prospects For Industrial Development*, Vol. 1, December, 1978, pp. 10-11. Also, *TYP*, op. cit. pp. 170 and see Government of Bangladesh, Planning Commission, *Economic Review 1977-78*, (Dacca: Government Press, 1979).

was essentially biased towards trading and commercial activities where the returns on invested capital were quick and the rates of profit high¹⁵⁸. Indenting houses, travelling agencies, shopping concerns etc. were the favoured field of activities in the private sector. With generous incentives and liberal facilities, the Bengali private entrepreneurs, unlike in the past, were venturing into a variety of industrial fields. The approved investment projects included deep sea fishing, synthetic textiles, specialised textiles, ready-made garments, footwear, weaving units, canning, drugs and pharmaceuticals, plastic and rubber products. A number of infrastructural projects like ship-repairing, building of barges, engineering works found place in the investment portfolios of the private sector.

Lobbying for Denationalisation

The private enterprise got the preferential treatment and obtained a "proper climate of investment". Next they made moves to secure special concessions for "rendering their services in purchasing the units placed for disinvestment"¹⁵⁹. The government in taking over and

158 Papanek, *Development, op. cit.* study shows a movement from trade and commerce to industry. Lewis observed "..... a clear progression over generations from agriculturalists to trader to industrialist,...". See Stephen R. Lewis, *Pakistan Industrialisations and Trade Policies*, (London: Oxford University Press, 1970), p. 45.

159 In addition to disinvestment of abandoned manufacturing enterprises placed under the Disinvestment Board, the government also decided to return to the private sector by way of sale 2187 commercial and trading concerns whose control and management it assumed in the wake of the Liberation war either as "abandoned" or "vested" former enemy properties, *The Holiday*, 18 December 1977. The government also sold ten out of twenty nine tea gardens and processing units under the public sector management in 1977 at a time when tea industry was showing improvement and in the wake of 1976 "tea boom". See *The Holiday*, 14 August 1977 and 9 July 1978. Several public sector financial institutions were providing a major portion of investment funds to the private enterprise and institution and infrastructural supports. Even then a seminar organised by the Narayanganj Chamber of Commerce and Industries demanded a facility of 90:10 loan equity ratio for private investment, *The Holiday*, 25 June 1978.

nationalising the enterprise had assumed their liabilities. The private sector, however, demanded concessions which would absolve them from those liabilities. They were attempting once again to transfer the burden ultimately to the people of the country as they did during the pre-liberation period under alien capitalism. Among this class were those of the Bengali entrepreneurs who craftily transferred resources from the enterprises as they became apprehensive of the impending nationalisation¹⁶⁰. This was the same class who did not earn their position through trial and experience and some of whom were given safe passage for their "black money" and who responded to the increased facilities by asking for more.

The next step in the strategy of the private enterprise was to organise a campaign to give a bad name to the nationalised sector. The effect of the Liberation War and the post 1972 plunder patronised by the Awami League left many of the enterprises in a pitiable economic condition¹⁶¹. Many of the problems of the nationalised enterprises purely in terms of accounting profit and loss were, however, attributable to chaotic policy formulations and management of a combine of corrupt, politico-techno-bureaucracy¹⁶². The private sector began a concerted campaign for disinvestment of nationalised industries on the ground of their having failed to earn profit. The acquiescence of the ruling elites, a strong lobby in some influential newspapers and a deteriorating economy that did not generate much optimism

160 In this they emulated the Pakistani owners of the abandoned enterprises. Sobhan writes that while the peasants, workers and students fought the War of Liberation many of the Bengali mill owners kept their mills open both out of profit motive and fear of the Pakistani occupation forces, see, Sobhan, *Nationalisation*, *op. cit.* p. 185.

161 *Infra.*, Chapter V, pp. 234-8.

162 *The Holiday*, July 1976.

emboldened the private sector protagonists to demand in April 1977, that

the Bangladesh jute mills, comprising 50 per cent of the total loomage (of the entire jute industry of the country) should immediately be denationalised and handed back to their previous owners.¹⁶³

The arguments put forward by the chairmen of the Bangladesh Jute Mills Entrepreneurs' Society were

Nationalisation has caused enormous loss and damage in most spheres of our economy - whether it is jute mills or the cotton textile industry or any other sector which has to be run on a commercial basis...¹⁶⁴

The former owner of the jute and textile mills, of Bengali origin denounced the policy of nationalisation and demanded denationalisation. They brought forward charges of mismanagement, inefficiency, corruption and operational shortfalls in the nationalised industries. According to them, nationalisation had thwarted the industrial progress of the country. The lobby was immensely successful and nationalisation which to the ordinary men since Liberation had been synonymous to socialism, came to be regarded as almost a dirty word¹⁶⁵. However, while propagating the virtues of free enterprise this Bengali lobby did conveniently overlook the exorbitant social costs of the rise and growth of the private sector and the reasons for accounting profits of the private sector industries during the pre-Liberation period¹⁶⁶.

163 *The Holiday*, 1 May 1977.

164 *Ibid.*

165 *The Holiday*, 21 March 1976.

166 *Infra.*, Chapters V and VII. Nationalised jute industry was the most maligned sector. It has been convincingly argued that the jute manufacturing sector under the free enterprise economy during Pakistan period was not profitable and had to be heavily subsidized through Export Bonus Scheme and other indirect means. See Quazi Kholiquzzaman Ahmad, "Was the Jute Manufacturing Industry Profitable in the Pre-Liberation Days?" (Continued over)

These advocates of denationalisation seemed to forget the tremendous social issues and economic problems that such a wholesale denationalisation would involve¹⁶⁷. Also ignored was the ethical propriety of returning the enterprises for which the whole society, not a few Bengali capitalists with their insignificant contribution to the total outlay, had paid the cost.

Progress in Disinvestment

Of the 786 industrial undertakings that the government took over as abandoned by their owners after Liberation, 221 enterprises were placed under different sector corporations set up under the nationalisation Act. Subsequently, after verification 77 units were deleted from the list of the abandoned enterprises, 163 units were released to their owners and 14 were considered being commercial concerns. The remaining 311 enterprises, mostly small establishments of different categories were placed under the management boards in various regions of the country. Thus, the abandoned industrial establishments taken over by the government were placed under, either

166 (Continued) *The Bangladesh Development Studies*, Vol. 3 (July, 1977) pp. 362-70; M. Moinuddin Ahmed, "Public Sector or Private Sector? Jute/Jute Industry". A paper read at Bangladesh Economic Association/Bangladesh Institute of Development Studies Seminar on the Two Year Plan 1978-80 on 16 June 1978 at Dacca. Jute industry made a profit for the first time since Liberation in 1978-79. See, Azizul Haque, "Bangladesh 1979: Cry for a sovereign parliament", *Asian Survey*, Vol. 20 (1980), pp. 217-230.

167 Heldman, *op. cit.* Also see Katzarov, *op. cit.*, pp. 239-245. Katzarov shows referring to British experience in denationalisation that "although there are no intrinsic difficulties involved...at least so far as legal theory is concerned, public ownership of an industry for even a short period will create considerable economic and administrative problems in the restoration of the industry to private ownership".

the sector corporations/autonomous agencies or the regional management boards. The units having assets over Taka 1.5 million were placed under the management boards. Disinvestment process in respect of the units placed under the management boards, which were outside the purview of the nationalisation law, started in May 1972 under the Awami League Government. By September, 1978 in all 211 units of this category were disinvested in favour of the successful buyers/bidders and workers' cooperative societies. Of the remaining ones under the management boards, 50 units were pending for disinvestment due to some legal or other complications. Some of the units were partly abandoned or had foreign investment. No decision was yet taken in respect of another of 31 units whether they would be at all disinvested.¹⁶⁸

In addition, the military regime, in December, 1975 decided to disinvest some of the abandoned enterprises that were placed under the corporations governed by the nationalisation laws. The declared intention of the government, was to streamline and improve the operative efficiency of management of the remaining enterprises in the nationalised sector and to reactivate and invigorate the private sector by providing opportunities in the industrial activities and development of the country¹⁶⁹. According to the criteria laid down, only those units were to be deemed fit for disinvestment which were comparatively small in size, uneconomical for the sector corporations to run, unprofitable and were located in remote areas¹⁷⁰. The Sector Corporations

168 Department of Industries, Ministry of Industries, September, 1978. See Appendix Table 8.

169 *Ibid.*, Papers on objectives and procedures for disinvestment.

170 *Ibid.*

prepared a list of enterprises numbering 83 which were categorised as eligible for disinvestment proceedings as shown below.

TABLE 4

Number of Units Listed as Fit for Disinvestment in the
Nationalised Industries as in 1977-78 ¹⁷¹

<u>Sector</u>	<u>Number of Units</u>
Jute	6
Textile	3
Chemicals	38
Sugar and Food	17
Steel and Engineering	15
Wood Products	4
	—
Total	83
	—

Of the above, 53 enterprises were disinvested to the private sector by June 30, 1978. Another 22 units were disinvested by the end of December, 1978. Before March 31, 1979 six more units were disinvested and another 16 were in the process of being disinvested. Chronologically, enterprises from the nationalised sector were disinvested in the following order.

TABLE 5

Time Sequence of Disinvestment of Nationalised Enterprises
to Private Buyers Until June 30, 1978 ¹⁷²

<u>Regime</u>	<u>Time</u>	<u>Units Disinvested</u>
The Awami League Government	December 16, 1971 to August 15, 1975	None
The Military Government	August 15, 1975 to June 30, 1978	53

171 Ministry of Industries, Disinvestment and Compensation Wing, November, 1978.

172 *Review 1978*, *op. cit.*, pp. 114-119.

The number of enterprises disinvested in favour of the private buyers for the respective corporations until 30 June, 1978 is shown below:

TABLE 6

Sector-wise Break-up of Disinvested Nationalised Enterprises ¹⁷³

<u>Sector</u>	<u>Number of Units Disinvested</u>
Jute	2
Textile	7
Sugar & Food	12
Chemical	19
Steel & Engineering	13
Wood Products	nil
Minerals	nil
Total	53

By the end of the year 1979-80 a total of 110 enterprises stood disinvested in favour of the private sector¹⁷⁴. The government exchequer received, until November, 1978 a sum of Taka 88 million or about 24 per cent of the bid prices offered for the disinvested units¹⁷⁵. For the hard-core jute sector there was reprivatization of two units by June 30, 1978 and another 6 units during the next two years¹⁷⁶. This means that by the end of the FFYP period more than fourteen per cent of the total number of enterprises in the nationalised industries were returned to the private sector and by the end of the TYP nearly

173 *Ibid.* One enterprise was partially denationalised in the sense that the shares held by the enterprises previous shareholders (two multinational interests) were restored to them while the government retained the majority share.

174 Figures compiled on the basis of information in *Ibid.* and *Survey 1980, op. cit.*, pp. 32-38. Four enterprises of BFIDC were disinvested after the FFYP period.

175 Data collected from the Disinvestment Wing of the Ministry of Industries of the Government of Bangladesh in December, 1978.

176 *Review 1978, op. cit.* and *Survey 1980, op. cit.*

thirty per cent of the nationalised industries' enterprises were privatised¹⁷⁷.

Summary Observation

Undoubtedly, the Liberation movement in Bangladesh had been influenced by the radical thoughts both within and outside the Awami League. The appeal of socialism as a framework for future development was strong during and immediately after the Liberation. Some of the enthusiasm generated has been dubbed as hardly anything more than middle class romanticism about some vague notion of social justice. But it was quite natural for the Awami League, with its practical approach of things, to make use of the popular moods of the time. A great deal of motivation behind the act of nationalisation is not hard to discern. However, the radicalism of nationalisation programme of the Awami League is difficult to establish, particularly in the context of objective conditions in the industrial field in Bangladesh. The owners, entrepreneurs, managers and skilled workers had left the country, were aliens and collaborators and with a view to keep the economy going it was imperative that the government assumed responsibility. There was neither an indigenous entrepreneurial nor a managerial class readily available. In the very uncertain situation prevailing after the Liberation it is also doubtful whether a decision to hand over the management to the available private sector managerial and entrepreneurial class would have been a pragmatic step from political

177 After the merger and reorganisation of the corporations in the nationalised industries; there were 371 enterprises in 1976. See *Infra.*, Chapter IV, Table 8.

economic, administrative and social considerations. It is an established fact that in Bangladesh a self propelling industrial class has not been possible and that was why public sector predominated the industrial scene before the Liberation as well. The socio-economic aspirations of the people also seemed to be inclined towards a publicly managed and owned efforts in economic fields that crystallized and became strengthened in the course of the Liberation struggle over two and a half decades of the association with Pakistan. The predominant expectation prevailing in Bangladesh at the time of Liberation was therefore, to depend on the Awami League to institute radical social and economic reforms even though it was doubtful if the Liberation struggle alone could have successfully transformed the party into a radical one.

The nature of nationalisation programme in Bangladesh remained therefore, ambivalent. Starting from the premises of building up a socialist base for the economy nationalisation of industries in no time took the shape of a device for patronising the process of capitalistic accumulation for a privileged few. It is probably here one finds the reason why the purpose of nationalisation and the objectives of the nationalised industries were never made adequately clear including in the nationalisation law. As we have seen the Industrial Investment Policy 1973 merely stated that government faced the immediate task of restoring the existing industries most of which remained abandoned by the non-local industrialists after Liberation and therefore assumed responsibility of replacing the entrepreneurs and managers for efficient and effective management in the public sector. As stated the government found in this situation an opportunity to lay the

foundations of socialism in the industrial sector of the economy.

By the very admission in the policy statement one is tempted to ask if such an "opportunity" was not there whether the government would have taken the decision to nationalise moved purely from ideological considerations.

Although the military regime under the umbrella of the Martial Law pursued a policy of disinvestment that went on to denude the nationalised sector of as many as 53 enterprises by the end of the First Plan period, its origin is entrenched in the policies initiated during the Mujib regime. The organised power of the commercial middle class could be established during the military regime only as a consequence of the direct and indirect patronage it received earlier during the regime of Mujib.. In essence, both the Awami League and the military regime have been helping to promote capitalism. The nationalisation policy of Mujib promoted capitalist interests in a particular manner. So also the military regime worked out a policy of disinvestment to the same purpose. In the former case the form was somewhat misleading as nationalisation was heralded to pave the way for a socialistic pattern of economy, whereas its content, purpose and results have been different. Viewed thus, the disinvestment policy of the military regime is nothing but a further rationalisation of the capitalist development processes that was nurtured by a capitalist/nationalisation inaugurated by the Awami League regime. While the Awami League regime invoked the name of socialism the military regime invoked the concepts of rationalisation and efficiency.

CHAPTER IV

THE ORGANISATION OF THE NATIONALISED INDUSTRIES

Nationalisation in Bangladesh, in terms of the political philosophy and the goals and objective, remained ambivalent. Starting on declared socialistic premises it ended up in consequences that became manifestly congenial to enrichment and growth of private capitalism under a direct patronage from the State. In this chapter, an attempt will be made to study the organisation and management of industries evolved since nationalisation, through the interactions of an inherited framework and a lack of commitment on the part of the political leadership. A discussion of the statutory provisions revealed that the nationalisation law served as an inadequate guide for organisation, management and operation of the industries nationalised. Issues concerning the legal and administrative status of the various components of the nationalised industries invited controversies throughout the period under study. Lack of a definition on social and economic goals of the nationalised industries inhibited effort to devise and introduce rules and regulations suited to commercial operation on the part of the nationalised industries. The inherited administrative framework needed adjustments but only half-hearted attempt were made by the political elites. In the absence of a clear policy guideline from successive regimes, the corporation form per se, could hardly demonstrate if it was inherently and generally superior to the departmental form.

A : INSTITUTIONAL FRAMEWORK

The Conglomeration of Enterprises

The manufacturing enterprises which were nationalised under the Bangladesh Industrial Enterprises Nationalisation Order of 1972 covered a wide area of activities¹ - jute goods, cotton textiles, sugar, food products of various sorts, chemicals, pharmaceuticals, fertilisers, steel products, ship-building, engineering products, timber and forest products, cement, mineral products, leather goods etc. The same law had also brought under its purview those enterprises which were concerned with the development, exploration, transmission and distribution of gas and other minerals. Ten public corporations were set up under the same order of March 26, 1972. With addition of a new one² in September in the same year, the nationalised industries in Bangladesh came to consist of eleven "Sector Corporations" as they were known with an aggregate number of 352 enterprises under their charge as shown below:

1 Tea, a major industry was not nationalised although public sector activities in the field consisted in "production of tea, improvement of its quality, boosting up tea export" through Bangladesh Tea Board, a public body established in 1951. Similarly, electric power generation industry continued to remain under a statutory board set up before Liberation and reorganised in 1972. The Bangladesh Power Board was thus assigned with responsibilities for "among other things in providing for generation, transmission and distribution of power and construction, maintenance and operation of power houses and grids". Public sector activities relating to film industries, small and cottage industries and fisheries development were promotional in nature and were covered by statutes other than the industrial nationalisation order as above. Transport industries operating in public sector had their own separate statutes as their cover.

2 Bangladesh Tanneries Corporation.

TABLE 7

Sector Corporations and the Nationalised Enterprises
Placed Under Them in the Nationalised Industries of Bangladesh
as in December, 1972 ³

<u>Name of the Corporation</u>	<u>Number of Enterprises</u>
Bangladesh Jute Industries Corporation	77
Bangladesh Textile Industries Corporation	72
Bangladesh Sugar Mills Corporation	16
Bangladesh Food & Allied Products Corporation	54
Bangladesh Fertiliser, Chemical & Pharmaceutical Corporation	13
Bangladesh Paper & Board Corporation	9
Bangladesh Tanneries Corporation	30
Bangladesh Steel Mills Corporation	20
Bangladesh Engineering and Shipbuilding Corporation	34
Bangladesh Minerals, Oil & Gas Corporation	7
Bangladesh Forest Products Corporation	20
Total	352

Additional enterprises were placed under the nationalised sector from time to time and the nationalisation order was amended accordingly to accommodate such changes. In April, 1976 some of the sector corporations were merged on grounds of economy and rationalisation⁴. Accordingly in July, 1976 the Bangladesh Sugar and Food Industries Corporation was established to cover sugar and food industries previously organised under two separate corporations. Likewise

3 Figures given in a few published sources are often at variance presumably because additional units were added to the nationalised sector from time to time. The figures given in this table are based on the schedules attached to the nationalisation order ("P.O.27") and its subsequent amendments, *The Bangladesh Gazette Extraordinary*, 18 May, 1972 and corporation offices. Also, Ministry of Industries, *Nationalized Industries* (Dacca: Abco Press, 1975), p. 6, Table 7.

4 Although reasons of "economy and rationalisation" were articulated in the statute effecting the merger, it was also declared that the amendment became expedient "for the purpose of enabling the government to sell or otherwise transfer the industrial enterprises, shares and proprietary interests vested in the Government". See *The Bangladesh Gazette Extraordinary*, 19 April 1976.

Bangladesh Chemical Industries Corporation was constituted to embrace the activities of the three corporations dealing with the chemicals, fertiliser, paper and leather industries. Bangladesh Steel Engineering Corporation was set up to include industries in steel, shipbuilding and engineering sectors. In addition, as a part of the reorganisation the Bangladesh Forest Products Corporation was merged with the Bangladesh Forest Industries Development Corporation which had its origin in pre-liberation period and all assets and enterprises of the former were transferred to the latter⁵. Similarly some enterprises and their assets were transferred from Bangladesh Oil & Gas Corporation to the Bangladesh Minerals Exploration & Development Corporation set up in September, 1972⁶. Bangladesh Petroleum Corporation⁷ was set up in December, 1976 with four marketing companies, two blending plants and a refinery. The refinery plant was transferred from Bangladesh Minerals Oil and Gas Corporation. As a large number of the enterprises placed or transferred to Bangladesh Mineral Exploration and Development Corporation, Bangladesh Petroleum Corporation and Bangladesh Forest Industries Development Corporation, had been earlier nationalised under P.O.27 of 1972, these three corporations along with their respective enterprises have been considered in this study as the nationalised industries. Accordingly, there were 371 enterprises in the nationalised industries in Bangladesh at the beginning of 1977.

5 This was effected under Ordinance 25 of 1976, The Bangladesh Industrial Enterprises (Nationalisation) (Second Amendment) Ordinance, 1976, see *The Bangladesh Gazette Extraordinary*, 19 April 1976.

6 The Bangladesh Minerals Exploration & Development Corporation was set up under the Presidential Order No. 120 of 1972 published in *The Bangladesh Gazette Extraordinary*, 26 September 1972. As per the original schedule attached to the Order, there were eight projects placed under this corporation.

7 President's Order No. 98 of 1976 The Bangladesh Petroleum Corporation Order, 1976.

TABLE 8

Reconstituted Public Corporations and the Nationalised
Industrial Enterprises Placed Under Them as in December, 1976 ⁸

<u>Corporations</u>	<u>Number of Enterprises</u>
Bangladesh Jute Industries Corporation (hereafter BJIC/BJMC)	78
Bangladesh Textile Mills Corporation (hereafter BTMC)	75
Bangladesh Sugar & Food Industries Corporation (hereafter BSFIC)	58
Bangladesh Chemical Industries Corporation (hereafter BCIC)	65
Bangladesh Steel Engineering Corporation (hereafter BSEC)	54
Bangladesh Oil and Gas Corporation or Petrobangla (hereafter PB)	4
Bangladesh Minerals Exploration & Development Corporation (hereafter BMEDC)	10
Bangladesh Petroleum Corporation (hereafter BPC)	7
Bangladesh Forest Industries Development Corporation (hereafter BFIDC)	20
Total	371

With disinvestment of enterprises the size of the nationalised industries was reduced to 318 by the end of June, 1978.

The corporations were not, however, always organised according to similarity of products of the respective enterprises placed under them. While BJIC controlled the entire jute manufactures and BTMC virtually ran the whole of the mechanised cotton textile industry, BCIC was responsible for production of nearly 78 heterogeneous products ranging from fertiliser, paper and newsprint to soaps and detergents. Manufacturing activities of BSEC encompassed steel making and steel products to manufacture of cooking utensils, bicycles, television,

8 See *The Bangladesh Gazette Extraordinary*, 19 April, 1976 containing the notification envisaging the reorganisation and merger of the corporations. Figures compiled from the subsequent amendments of P.O. 27 of 1972 and Annual Reports of the Corporations and data given by them. Also IBRD, *Prospects*, *op. cit.* Vol. II pp.122 & 138. Figures given in several sources differ presumably because of frequent reorganisation and transfer of enterprise.

radio, assembling of cars and buses to industrial plants and machinery. BSFIC was engaged in manufacture of sugar, processing of tobacco products and frozen fish for export. BFIDC activities included extraction of timber and pulp wood, mechanical sawing, wood treating, tea chest, commercial plywood, veneer plant, fibreflex, coir products, processing of raw rubber and pulp and paper manufacture. BMEDC ran cement plants in addition to exploration and development of mineral resources. BPC was responsible for processing and marketing of petroleum and petroleum products. PB had no manufacturing or processing plants and was responsible for exploration, transmission and distribution of oil and gas resources.

Corporations within the nationalised industries varied in size, number of enterprises controlled, fixed assets, sales or employment opportunities provided. The table below shows:

TABLE 9

Variation in Size and Operation of the Corporations
in the Nationalised Industries in 1976-77¹⁰

<u>Corporation</u>	<u>Enterprises</u>	<u>Fixed Assets*</u>	<u>Annual Sales*</u>	<u>Employment</u>
BJMC	78	1700	2938	199600
BTMC	75	611	1813	65500
BSFIC	58	407	1401	31600
BCIC	65	2017	1849	25300
BSEC	54	804	1424	14500
PB	4	177	220	2800
BPC	7	148	560	2800
BMEDC	10	-	211	1100
BFIDC	20	338	78	4000

* in million Taka.

9 See Appendices for a list of the products of Bangladesh Nationalised Industries.

10 Head Offices of the respective corporations. Annual Reports of the respective corporations and IBRD, *Prospects*, *op. cit.*

The size and structure of the enterprises within the respective corporations varied too. The largest cotton mill under BTMC had 51720 spindles and 1364 looms employing 6200 workers and the smallest one had 12400 spindles and 97 looms with 1050 workers¹¹. Adamjee Jute Mills, the largest in the world had 3251 looms and the smallest under BJMC had only 44 looms¹². The largest enterprise in BCIC employed 3000 men while the smallest one only 23. Within a particular group of enterprises under one corporation the range of sales differed. Thus in the paper group of BCIC enterprises annual sales for one enterprise was Taka 184 million against another's only Taka 4 million¹³.

Of the nationalised industries, jute was the largest and the most important in the economy. Exports of raw jute and jute manufactures accounted for 75 per cent of foreign exchange earned by the country through exports. Jute goods accounted for over 80 per cent of the country's aggregate manufactured exports. The jute industry employed 34 per cent of the labour force in the organised manufacturing sector and about 20 per cent of the country's total industrial labour force. Textile industry like jute was labour intensive and peculiarly suitable in the face of a vast magnitude of employed and underemployed in Bangladesh. Cotton textile industry helped to sustain the large handloom industry¹⁴ based in the rural areas and which supplied 67 per cent of cloth availability. The BSFIC enterprises monopolised sugar production, absorbed a large amount of rural agricultural production of sugarcane and its other varied enterprises opened up new opportunities

11 BTMC, *Annual Report 1976-77*, (Mimeo) n.d.

12 BJMC Head Office; IBRD, *Bangladesh Survey of the Jute and Cotton Textile Industries*, (Washington: 1975), Part I, Table 6.

13 BCIC, *Achievement in Retrospect and the Target 1977-78*, (Mimeo.)

14 Handloom industry is said to provide works for approximately 750,000 persons.

of diversifying exports which was imperative because of near dependence on jute alone. The major engineering industries revolved round the nationalised sector. Although plants in the BSEC represented less than 10 per cent of the total number of plants in the engineering industry, they dominated manufacturing activities based on iron and steel products. All the fertiliser plants, paper mills and newsprint factories, the petroleum refinery and cement plants belonged to the nationalised industries sector. Exploration, transmission, distribution and development for industrial use of the only mineral resources which is known to be available in some substantial quantity, i.e., natural gas, was entrusted to the nationalised sector.

Though numerically a minor fraction of the industrial sector the nationalised industries dominated the scene and to use the phrase of Musolf - "nearly linked the economy"¹⁵. The nationalised industries accounted for nearly 90 per cent of the aggregate fixed assets in the major industrial groups¹⁶. Aggregate annual expenditures of the nationalised industries were estimated at about 64 per cent of the total expenditures incurred by all public sector institutions in the country¹⁷ and their annual average budget expenditures were equivalent to nearly 78 per cent of the average aggregate amount of government revenue and capital expenditure during the FFYP period¹⁸. They

15 Lloyd D. Musolf, *Public Ownership and Accountability*, (Cambridge: Harvard University Press, 1959), p. 23.

16 For fixed assets of the nationalised industries see Appendices. For fixed assets in major industries, see *Year Book 1979*, *op. cit.* pp. 260-261.

17 Government of Bangladesh, Ministry of Finance, *Financial/Budget Statement of Autonomous Bodies*, respectively of 1975-76, 1976-77, 1977-78 and 1978-79, (Dacca: Government Press, 1975, 1976, 1977 and 1978).

18 *Ibid.*, *Statistical 1978*, *op. cit.*, pp. 224-225.

accounted for 81 per cent of total FFYP allocations for the industrial sector¹⁹. Nearly 43 per cent of financial resources provided by the commercial banks went to the manufacturing sector and bulk of these went to the nationalised industries²⁰. On the other hand the nationalised industries contributed nearly 5 per cent of the total non-tax revenue receipts of the government²¹ and were responsible for payment of about 24 per cent of the aggregate tax revenue of the government during the FFYP period²². Exports of the products of the nationalised industries fetched 59 per cent of the national foreign exchange earnings through exports²³. Value of the products of the nationalised industries was about 62 percent of the national aggregate of gross value of the national industrial production²⁴. Public enterprises in general contributed only 8.2 per cent of the GDP and of this public sector manufacturing units contributed a half²⁵, nearly all of which came from the nationalised industries. The nationalised industries were responsible for employment of about 37 per cent of the labour force engaged in manufacturing

19 FFYP, *op. cit.*, p. 216, Table 9-4.

20 Compiled from *Statistical 1978, op. cit.*, p. 232; *Economic Indicators of Bangladesh*, Vol. 5 (July, 1978), p. 12.

21 Figures derived from *Statistical 1978, op. cit.*, pp. 226-7, Government of Bangladesh, Planning Commission, *Economic Review*, respectively of 1974-75, 1975-76, 1976-77 & 1977-78 (Dacca: Government Press, 1975, 1976, 1977 & 1978), *Survey 1979, op. cit.*, p. 256, also IBRD, *Bangladesh Current Economic Trends*, Vol. 1 (Washington, IBRD, 1978) p. 58.

22 *Statistical 1978, op. cit.*, pp. 226-7, Data collected from the corporation offices and the annual reports, see Appendices.

23 IBRD, *Prospects, op. cit.* Vol. 2, p. 205; *Review 1978, op. cit.* p. 205.

24 Data derived from *Year Book 1979, op. cit.* pp. 262-3; Annual reports and offices of the corporations, *Review 1978, op. cit.* p. 113. IBRD, *Prospects, op. cit.*, Vol. 2, see Appendix.

25 Muzaffar Ahmed, "Public Enterprises in the National Economy", *Journal of Management, Business and Economics*, Vol. 3, (July, 1977), pp. 1-58.

works in the economy²⁶.

The Corporate Form

Previous experience in Bangladesh with the public sector industries was confined to industries run by the PIDC during the pre-liberation period. The organisational problems of EPIDC were subject to a number of studies all of which suggested the need to²⁷

- (i) break away from the overcentralised and bureaucracy dominated structure;
- (ii) provide professional management with clearly defined lines of responsibility;
- (iii) create conditions so that the enterprises could operate with sufficient freedom to be able to secure their own commercial viability.

After nationalisation, the "conglomerate" structure of EPIDC/BIDC²⁸ was dismantled and in its place new sector corporations were set up. These corporations were defined, by and large, according to the technical similarity of products and processes of the enterprises placed under them. In placing most of the public manufacturing activities under the control supervision and co-ordination²⁹ of public corporations a preference for this form of organisation was demonstrated to those of company form, departmental management or control board. Compared to neighbouring India, for example, there was hardly any intense discussion regarding the adoption of the public corporation form in

26 Average annual employment figure of the nationalised industries during the FFYP period was 350,000 as compared to 948,000 persons employed in aggregate for the organised manufacturing sector as a whole. See, *Year Book 1979, op. cit.*, pp. 83-4, 331-2, 391 & 394; Annual Reports of the corporations and information provided by the respective corporations. IBRD, Prospects, *op. cit.*, Review, 1978, *op. cit.* see Appendix.

27 Sobhan, *Nationalisation, op. cit.* p. 190.

28 After Liberation EPIDC was renamed as BIDC.

29 *Industrial Nationalisation Order 1972, op. cit.*, Preamble.

Bangladesh³⁰.

It has been suggested that the public corporation form is the product of an advanced state of industrialisation³¹. It gives freedom from political decision and red tape and helps to introduce the "business type" leaders at the top management level in response to the business type tasks assigned to the corporation by the government. The public corporation form facilitates the performance of assigned tasks regarding conservation and exploitation of natural and human resources in a country. The advantages of this form lay in the fact that it

could be clothed with the powers of government but possessed of the flexibility and initiative of a private enterprise³²

In Bangladesh, despite the obvious preference for public corporation as the predominant organisational form for the operation of the nationalised industries, public enterprises were also organised as government departmental undertakings, control boards and public companies³³. Generally, enterprises in the nature of public utility were organised as departmental undertakings. They were financed through appropriation from the government treasury and were subject to

30 See for example, P.V. Pylee, "Government Enterprises in the Indian Economy", *Asian Survey*, Vol. 1 (September, 1961) pp. 16-26. Also, Nabagopal Das, *The Public Sector in India*, (London: Asia Publishing House, 1966), pp. 53-67 for discussions on the relative merits of different organisational forms viz. company, public corporation or departmental in the Indian context.

31 See Robert LaPorte Jr., "An Analysis of a Development Strategy: Public Corporations and Resource Development in South Asia", *International Review of Administrative Sciences*, Vol. 33 (1967) pp. 319-328.

32 The statement is attributed to the American President Franklin D. Roosevelt.

33 Public manufacturing undertakings other than the nationalised industries were also placed under the Freedom Fighters' Welfare Trusts, Sena Kalyan Sangstha, a welfare foundation for the soldiers and Telegraph and Telephone Board, an autonomous but a departmental undertaking.

the same budget, account, audit and control procedures like the government departments³⁴. Relaxations were made, from time to time, of the normally rigid government rules and regulations so that the commercial character of these public enterprises could be accommodated to a certain extent. In spite of this, the departmental undertakings remained a part of the government.

Nationalisation made the government responsible in productive activity in contrast to the traditional regulatory and promotional responsibilities. Public ownership of a large scale and diverse industrial activities gave rise to a monopoly situation, whether formal or real, substituting competition. This tended to make the entire industry a single unit merging the problems of the firm with the problems of the economy. Public corporations were set up as aid to resolve the problems of organisation and control. They were conceived as the "central organisation" in the management structure of the nationalised industries³⁵. They were to "control, supervise and co-ordinate" the operation of the nationalised enterprises placed under them. The enterprises in the nationalised industries, with a view to the same purpose, may be categorised as:

- (i) those directly run by the corporations as their subdivisions;
- (ii) those organised as limited companies under the Companies' Act having their own Memorandum and Articles of Association.

The role of the public corporation is expected to be defined in the law under which it is created. The corporation sets the overall objectives and policies for its field of activity in consultation with the administrative ministry. It is responsible to the government for

34 For example, the Bangladesh Railway.

35 Qazi Kholiquzzaman Ahmad, "Aspects of the Management of Nationalised Industries in Bangladesh", *The Bangladesh Development Studies*, Vol. 2 (July, 1974), p. 675-702.

attainment of targets and satisfactory operation of the enterprises placed under it and to submit periodical statements to the government in this respect³⁶. The corporation is to prepare sector budgets, conduct internal audit, arrange procurement of bulk items, approve production planning and ensure a smooth marketing mechanism for the products of the enterprises in conformity with the government's distribution policy³⁷. It formulates a manpower strategy and ensures recruitment of suitable personnel in the executive and other cadres of enterprise management³⁸.

To cope with the diversity and complexity of the nationalised industries, the corporations were placed under the administrative controls of different ministries. No single agency or ministry³⁹ was placed in overall charge of the nationalised industries as a whole. To begin with the Nationalised Industries Division in the Ministry of Industries was responsible for all the sector corporations except BJMC and PB. BJMC was placed under the administrative control of the Ministry of Jute and PB under the Ministry of Petroleum and Mineral Resources. After reorganisation of the sector corporations, the jurisdiction of the Ministry of Industries was limited to only for

36 *Industrial Nationalisation Order, op. cit.*, Articles 19 & 22.

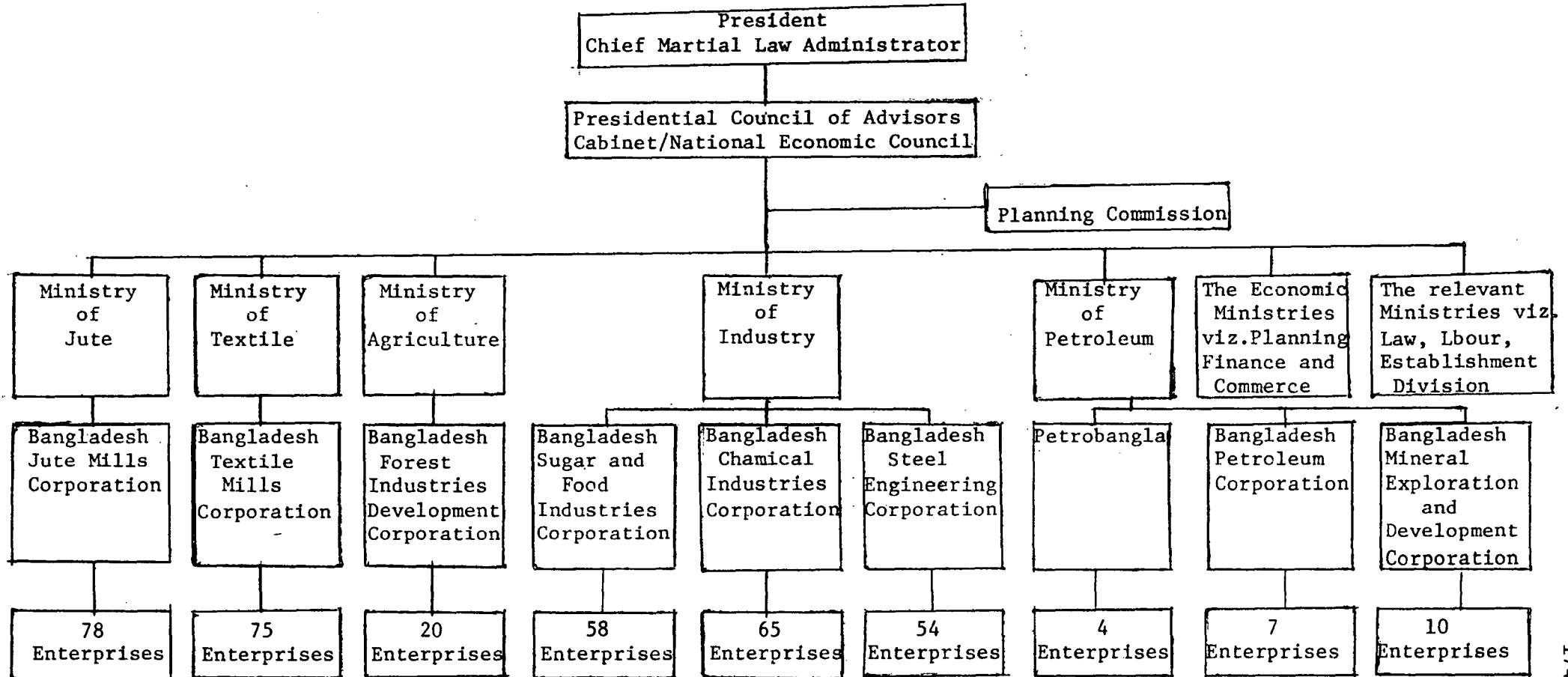
37 *Ibid.*

38 *Ibid.*, Article 16.

39 In India a Bureau of Public Enterprises was set up. See R.C. Mascarenhas, "The Bureau of Public Enterprises in India", *International Review of Administrative Sciences*, Vol. 34 (1968), pp. 246-256. The FFYP seems to have perceived the Nationalised Industries Committee in the Nationalised Industries Division of the Ministry of Industries as a form of "deliberative and not executive agency." See *FFYP, op. cit.*, pp. 252-3. The Committee hardly ever functioned and with different ministries being responsible for different corporations such a committee under the umbrella of one ministry could hardly be effective.

CHART 1

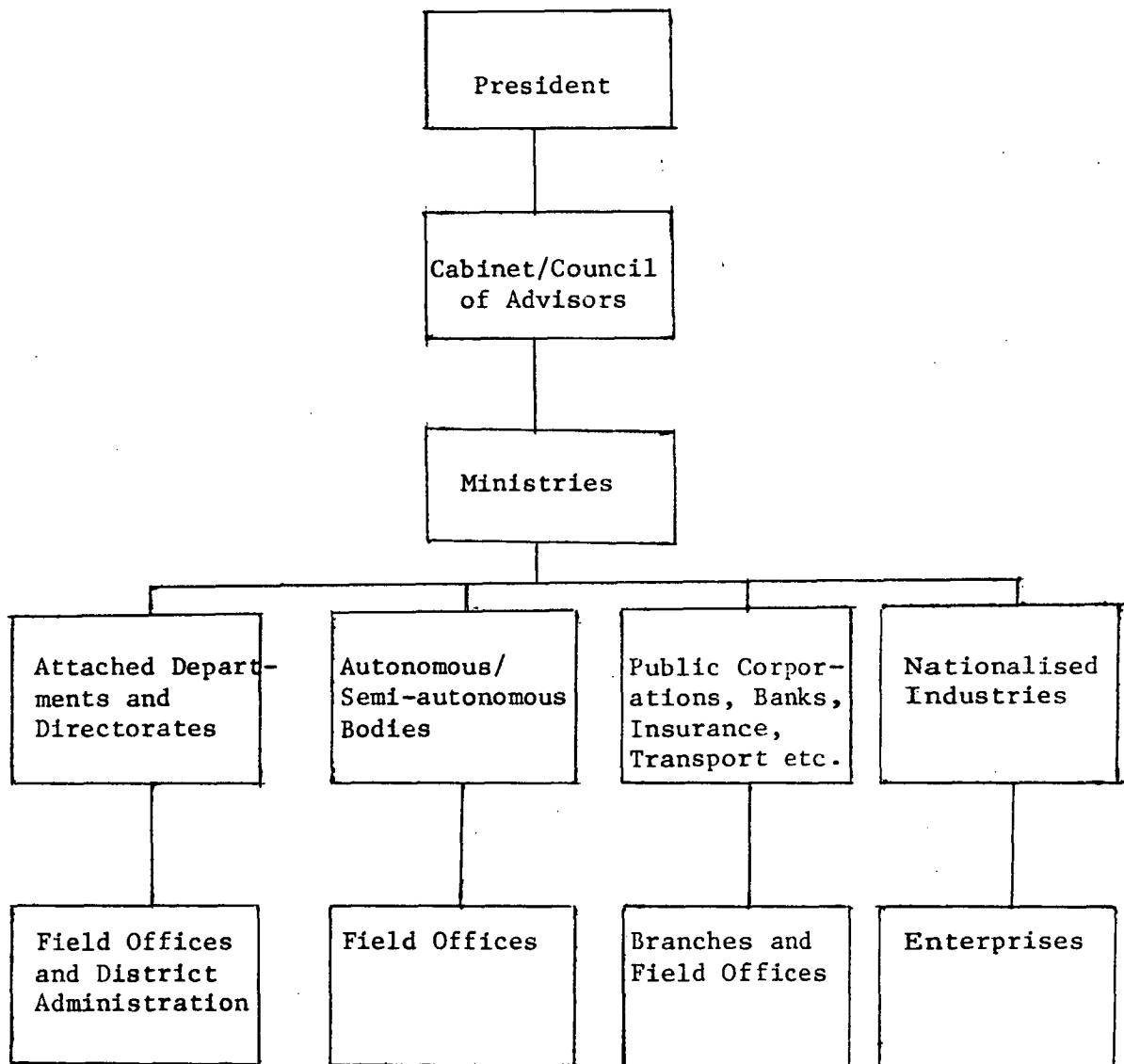
ABBREVIATED FORMAL ORGANISATION OF THE NATIONALISED INDUSTRIES IN 1976



N.B. The Parliament was dissolved. Under the military rule, President of Bangladesh was also the Chief Martial Law Administrator with power to make law.

CHART 2

THE NATIONALISED INDUSTRIES AS PART OF THE
GOVERNMENT MACHINERY



BSFIC, BCIC and BSEC. A separate textile ministry was created in 1977 and BTMC was placed under its control. BFIDC was under the administrative control of the Ministry of Agriculture. The Ministry of Petroleum and Mineral Resources was made responsible for PB, BMEDC and BPC. Although under the administrative control of different ministries the nationalised industries were nevertheless not insulated from the influences and control of other ministries such as the Ministry of Planning, the Ministry of Finance, the Ministry of Law, the Ministry of Commerce and the central personnel agency of the government, Establishment Division. At macro level policies were generally the result of consultation and consensus among the ministries and thus ultimately the Cabinet of Ministers was involved⁴⁰.

The basic dilemma of co-ordination, control and accountability was however to reconcile the operational flexibility of the public corporations with the need for control, accountability and consistency in public policy. This remained, like many other countries, elusive. The FFYP prescribed "maximum commercial autonomy"⁴¹ for the public corporations without defining its operational meaning. But the public corporations for the nationalised industries did not or could not enjoy autonomy as implied in the definition of public corporation form⁴².

40 *Infra.*, pp. 178-84.

41 *FFYP.*, *op. cit.* p. 252.

42 One of the earliest writings on the public corporation form was of Marshall E. Dimock, "Government Corporations: A Focus of Policy and Administration", *The American Political Science Review*, Vol. 63 (October, 1949), pp. 899-921; Also see Harold Seidman, "The Theory of the Autonomous Government Corporations: A Critical Appraisal", *Public Administration Review*, Vol. 12 (1952); W.G. Shepherd, "Public Corporation and Public Action", *The Political Quarterly*, Vol. 35, (1964); R.S. Arora, *Administration of Government Industries: Three Essays on the Public Corporation*, (New Delhi: Indian Institute of Public Administration, 1969); Also Edward Richard Ball, *The Significance of the Government Corporation in Administrative Theory*, Unpublished Ph.D. Thesis, University of Notre Dame, 1955.

They were instead reduced to a position of a government department "with somewhat exalted position"⁴³. This happened through the following ways:

First, the needed rules were not framed as to introduce flexibility and required operational freedom in the policy framework, procedures, decisions and action. The functional responsibility of the ministry remained confused due to the lack of the rules of business and absence of clear definition of relationship. Nationalisation law itself was vague⁴⁴ and an omnibus law⁴⁵ could not adequately recognise the differences in function, goals, objectives and organisational needs of all the corporations.

Second, the inability of the government to define objectives of nationalisation or the nationalised industries and of the corporations led to a confused policy mix. Different ministries and agencies of the government pursued contradictory goals. Thus the Ministry of Finance pressed for returns on investment and generation of surplus, while the Ministry of Commerce wielded its authority to fix a price to give relief to the consumers. The physical targets were set by the Ministry of Industries based on capacity but it was not followed by the Ministry of Finance or of Commerce in respect of

43 Muzaffer Ahmad, "Whither Public Enterprise", *The Journal of Management, Business and Economics*, Vol. 3, No. 1 (January, 1977) pp.130-151.

44 A questionnaire was circulated to the chairmen and directors and secretaries to the corporation boards in September-November, 1978 in connection with this study. Out of 9 public corporations covered in this study, 7 chairmen, 20 directors and 7 secretaries responded to the questionnaire supplied to them. The coverage was about 75 per cent of the personnel manning the corporation boards in the nationalised industries. About 59 per cent of the respondents thought that the nationalisation law was vague.

45 *Infra*. See the section on "Legal Framework" below.

foreign exchange allocations to import industrial raw materials or much needed machinery and spare parts. The Investment Board went on sanctioning new capacities in the private sector while the public sector was being plagued by underutilisation of capacity in the same sphere of activity.

Third, if autonomy was the *raison d'être* for establishing public corporations for operating the nationalised industries it also became the victim of control which was the loudest theme in the nationalisation order. But the authority and control of government as provided in P.O.27 of 1972 were at times specific and at times vague and at times an umbrella clause making it all encompassing⁴⁶. The locus, areas and instrument of control were left unspecified. There was thus overloading of the ministries in pricing, procurement, distribution, personnel management and financial administration.

The Working Arrangements

Human organisations of any size have a clear hierarchical structure. Any set of plans used to govern organisation also constitutes an exceedingly elaborate hierarchical system. If a system is conceived of as a complex of interrelated activities⁴⁷ management of as large a conglomeration as of the nationalised industries of Bangladesh was fundamentally a matter of coping with complex problems. It was, therefore, necessary to design the system - especially, the particular type of system known as organisation. Organisation like all systems has to have a hierarchical

46 Muzaffer Ahmad, "Prospects and Problems of Nationalised Industries: A Critical Review of Views", *The Journal of Management, Business and Economics*, (Dacca: January, 1975), Vol. 1, pp. 28-53.

47 See R.L. Ackoff, "System Organisation and Interdisciplinary Research" in Donald P. Eckmanjd ed., *Systems Research and Design*, (New York: John Wiley & Sons, 1961), pp. 26-42.

structure which results from factoring global objectives into a hierarchy of more manageable objectives. Following Emery⁴⁸ the organisation of the nationalised industries - its compartmentalisation, delegation of authority and assignment of responsibility for achieving the assigned objectives should, therefore, represent an effort to complement the results of the factoring process. As organisation becomes more complex and large, an important variant of the functional structure is introduced - the federal decentralised structure. With it the problems of maintaining a coherent and orderly pattern of activities become a subject of increasing concern⁴⁹.

The system adopted for the management of the nationalised industries in Bangladesh was stated to be a three-tier system⁵⁰. The hierarchical levels or the pyramids consisted of the government in the ministries at the top, sector corporations in the middle and the enterprises at the bottom. The interrelated activities in the system of the nationalised industries may be accordingly identified as follows:

- (i) Government set the overall policies and objectives for the industry;
- (ii) Corporations guide and assist the individual enterprises to achieve the overall objectives;
- (iii) Enterprises act to achieve individually their share of required production of the sector.

The Nationalisation Order defined the role of the government as "the sole share holder" and owner of all the properties of the nationalised

48 James C. Emery, *Organisational Planning and Control Systems, Theory and Technology*, (New York: Macmillan, 1969), p. 21.

49 G. Mackecrie, M. Franklin & Blennerhassel, "Organisational Analysis: State of the Art", *Administration*, Vol. 23, (1973), pp. 150-155.

50 The FFYP pointed out the "need for a clearcut demarcation of responsibility between the Minister as the policy maker, the sector corporation as regulating agency...and the individual enterprises directly in charge of productive operations. *FFYP, op. cit.* p. 251.

industrial enterprises⁵¹. The government could sell or transfer any of the nationalised enterprises except those in the jute, sugar and cotton textile sectors other than the specialised textiles. The government was also clothed with a blanket power and could

take such measures and do such things as it deems necessary or expedient for the purpose of efficient running of such industrial enterprise.⁵²

It could appoint the Chairmen and Directors of the Boards for the corporations for the general direction and administration of the affairs and business of the nationalised industries. The government could issue general or special instruction for the control and superintendence of the boards of the corporations. The government could delegate its power to the corporation, determine the manner of subscription by it the authorised share capital, approve the annual budget statement of the corporations, give permission to the corporations to raise loans, appoint auditors to audit the accounts of the corporations, require the corporations to furnish reports and accounts and alter the composition by transferring in or out the enterprises from one or other corporation or elsewhere⁵³.

In contrast to the pre-liberation practice of the government's role being confined to the enforcement of rules and regulations the Industrial Investment Policy of 1972-73 visualised the government as provider of constructive assistance and dynamic leadership for efficient and effective management in the manufacturing sector. The report of a management consultant appointed to advise the government on the organisation

51 *Industrial Nationalisation Order*, op. cit., Article 4, later amended by Ordinance No. 25 of 1976.

52 *Ibid.*, Article 5.

53 *Ibid.*, Articles 18, 19, 20 and 21.

of the nationalised industries viewed the role of the government as a policy maker and not as a manager⁵⁴. The role of the different tiers was identified by the consultants as follows:

- (i) The Planning Commission will submit to the Cabinet Plans for new industrial development and general economic policy;
- (ii) The Cabinet, if these plans are accepted by it, will ratify them and request the Minister to implement them;
- (iii) The Minister of Industries will advise the Chairmen of the Corporations of the Cabinet plans and policies;
- (iv) The Chairmen of the Corporations will implement the policies by overall supervision of the enterprises.
- (v) The Chief Executives of the enterprises will strive to achieve individually their share of production targets and other contributions towards the sector.⁵⁵

The consultants group identified three separate roles for the government when it attempts to operate commercial and industrial undertakings:

- (i) The government owns the enterprises and exercises normal rights and responsibilities of any owner but delegate to the executives the management of the business;
- (ii) The government defines and ensures the implementation of social, political and economic policies through the nationalised industries in the same way as it would through private companies;
- (iii) The government carries out normal routine administrative functions, for example, foreign exchange controls, fiscal policies, legislation or labour.⁵⁶

The report of the consultants group recognised that the government as owner would look for increased production, lower costs, maximum prices, more profits and commercial freedom, but it would also want to keep the prices low and permit wages to meet inflation with a view to achieve its

54 *Report on the Organisation Structure for the Nationalised Industries: The Government and the Sector Corporations*, (Government of Bangladesh/ P.A. Management Consultants Ltd., London, 1972), p. 8.

55 Based on *ibid.*, and *Final Report on the Bangladesh Nationalised Industries Management Consultancy Project*, (London: P.A. Management Consultants, 1975).¹

56 *Ibid.*

social and economic objectives.

The essence of the report of the management group seems to lie in visualising the role of the government parallel to the public and private sector alike. As defined policies are issued to industrialists in the private sector and the private owners strive to attain optimum efficiency and prospects through exercise of their own role and responsibility, so will the government as the owner of the nationalised enterprises within the policy guidelines set for itself. However, the implications of a mixed economy apparently did not conform with the prevailing ethos of the Mujib regime. The government did not come out in the open with its views and seems to have let things go as they were. Thus except for some structural improvements the Report had no profound implications for the nationalised sector.

The government sought to strengthen its machinery in the ministries in view of a large public sector in the economy. The Administrative and Services Reorganisation Committee constituted in March 1972 envisaged the function of the Ministry of Industry to effectively coordinate and assist the sector corporations, without in any way impeding their operational autonomy⁵⁷. The Committee recommended that the ministry retained direct responsibility for the supervision of the

- (i) organisational set-up
- (ii) personnel management
- (iii) pricing policy
- (iv) budgetary matters and
- (v) investments of the sector corporations.

The Committee also recommended that the government should delegate full

57 Government of Bangladesh, *Reports of the Administrative and Services Reorganisation Committee*, (Volumes 1-6) (Dacca). The report was not published for general information. But the general contents were known.

responsibility for all other matters to the corporation. But the report was never made public nor its recommendations accepted or rejected.

During the post-Mujib period, there was initially some efforts to formulate a set of prescribed rules in the affairs of the government and its activities in the economy. One such attempt materialised in the framing and adopting of the "Rules of Business". It was not that such "Rules of Business" were absent in the past, but after Liberation in view of the changed perspectives and emphasis a fresh approach was required in the transactions of the governmental business. Even though the Constitution clearly provided that such "Rules of Business" should be framed⁵⁸, Mujib administration followed a policy of procrastination in this respect. This meant ad-hocism in government business resulting in a rule of one person and not a rule of law⁵⁹. However, the Rule of Business 1975 made effective after Mujib's exit spelt out the role of the government in respect of the nationalised industries. Accordingly, the government through the respective ministries was to be responsible for: formulation and administration of industrial policy, preparation of schemes relating to the public sector industries, formulate policies and examine problems common to nationalised industrial corporations, analysing the financial reports and pointing out deviations if any, determination of pricing policy of the products of the nationalised industries, industrial research and accountability to the Cabinet for the performance of

58 *Constitution, op. cit.*, Article 56 (5).

59 The Awami League partymen openly advocated for one-man rule of Mujib in place of the rule of law. Sheikh Moni, Mujib's nephew said in a leading article in the *Daily Banglar Bani* that what was needed was a rule of Mujib and not a rule of law.

the nationalised industries. The performance of the governmental responsibilities towards the nationalised industries implied close coordination, consultation and coherence in the multifacet activities of its various components. Thus for example, Establishment Division as the central personnel authority for the government played a vital role in respect of deployment of civil service officers to the nationalised industries specially for the corporation boards positions. Any move to reorganise the nationalised industries required the opinion of the Establishment and the Organisation and Management Division. The Ministry of Finance was responsible for scrutiny and approval of budget of the corporations on the matter of capital issue and also to enforcement of financial discipline and propriety through inspection of the accounts and activities of the corporations. The Ministry of Commerce had to be consulted regarding operation of the assets of the companies and also pricing policy and control. The Ministry of Labour and Social Welfare had an important role to play about matters concerning labour laws and welfare and labour disputes. The preparation of rules regulations, by-laws and notifications could not be complete without being vetted by the Ministry of Law. The Ministry of Planning was to be consulted on all economic questions arising out of foreign exchange, export programme and import policy, grant of protection to indigenous industries, pricing policy including grant of subsidy, determination of investment policy and determination of labour policy. In sum, the government performed its overall responsibilities through the concerted efforts of its various organs in the ministries⁶⁰.

60 As per the Rules of Business, 1975 and Allocation of the Different Ministries and Divisions in the Government of Bangladesh published after the exit of the Awami League from power.

In a democracy, besides the executive organ, the legislative branch has a cardinal role to play. The founders of Bangladesh carrying the wishes of the people as reflected in election mandates⁶¹ visualised a parliamentary democracy. But in line with the post-liberation practices of the Awami League, supremacy of the parliament was virtually relegated to the subordination of a popularly elected authoritarian leader⁶². It was, therefore, not surprising that parliament did not demonstrate a meaningful interest in the affairs of the nationalised industries⁶³. Although obligatory⁶⁴ under the Nationalisation Order no annual report of a nationalised industrial corporation was considered or debated in the Parliament. There was no meaningful parliamentary discussion as evidenced from the records of the proceedings of the parliament during 1972 and 1975. Most of the questions asked appeared to have been addressed to the gallery, being ephemeral and topical⁶⁵. The devices intended to regulate relationships between nationalised industries were hardly used. There was no regular full scale debate on the nationalised industries, supposedly a corner stone of the ruling elite's efforts to establish socialism. There was also the Controller and Auditor General who was supposed to examine the workings of the nationalised industries for the express purpose of presenting information

61 The Awami League Manifesto 1970 envisaged that "the character of the Government shall be Federal and Parliamentary".

62 *Supra.*, pp. 122-3.

63 Mohiuddin Alamgir, "Nationalised Industries of Bangladesh: Problems and Prospects", *The Bangladesh Development Studies*, Vol. 2 (July 1974, pp. 703-20.

64 *Industrial Nationalisation Order*, *op. cit.*, Articles 22 (2) and (5).

65 Interview with Mr. Mofazzalul Haq of the University of Dacca who was conducting a research on the aspects of the parliamentary control of the public enterprises in Bangladesh. His preliminary findings tended to confirm the above observation.

to the parliament. Parliamentary control, however, remained non-existent not only during the military regime but also during the Awami League regime - the protagonists for the parliamentary system of democracy.

The sector corporations have been described as the central organisations in the management of the nationalised industries⁶⁶. The main responsibility for running the nationalised industries devolved on the sector corporations. They were also the commercial units⁶⁷ since they, as guardians of assets of the enterprises placed under their respective control were responsible for ensuring that overall targets and objectives of the nationalised industries were achieved. The functions of the corporation were broadly classified in two categories - general and specified⁶⁸. The general functions of the corporation were defined as:

to operate, as national concerns, on commercial and economic basis and to meet the needs of the public in the most efficient and economic manner.⁶⁹

The specific functions were to be indicated in respective laws and rules creating the corporation. While the Guidelines sought to attribute "commercial and economic basis" and a public purpose to the autonomous bodies and public corporations in general, the sector corporations, whose basic law was the Nationalisation Order did not seem to be under such obligations as provided in the law. Thus while the statutes constituting BFIDC, BMEDC and BPC clearly had commercial

66 *Supra.* fn. 35.

67 *Ibid.*

68 Government of Bangladesh, Cabinet Division; *Guidelines on the Relationship Between Government and Autonomous Bodies/Corporations and the Autonomous Bodies/Corporations and Enterprises Under Them.* (Dacca: Government Press, May, 1976).

69 *Ibid.*

implications and a public purpose⁷⁰, P.O.27 of 1972 cannot be said to have incorporated any such provisions in clear terms. The statutory obligations of the sector corporations were

to control, supervise and co-ordinate...the activities, business and affairs of the...industrial enterprises placed under it and to establish and develop new industrial enterprises within their respective fields.⁷⁷

The corporations could frame regulations relating to the manner they control, supervise and coordinate the business and affairs of the industrial enterprises. The corporation could also exercise the power of the sole shareholder in the industrial enterprises and as such according to the companies law, appoint the directors of the Boards of the enterprises and the auditors, approve the audit report, the audited balance sheets and the dividend to be distributed among the share holders. The corporation could exercise these powers on behalf of the government if delegated to it by the government. The corporation was obliged to submit to the government for approval the annual budget statements showing estimated receipts, expenditure and sums which were likely to be required from the government during the financial year. The Corporation was authorised to expend such sums of money as per the annual budget approved by the government. The corporation was under statutory obligation to publish the audited accounts and annual report and to lay the same before the parliament⁷².

70 Article 7 (2) of the Bangladesh Mineral Exploration and Development Corporation Order, 1972 envisaged that the Board of BMEDC "shall act on commercial considerations having due regard to public interest generally.." Forest Industries Development Corporation Ordinance, 1959 and Provincial Industrial Development Corporation (East Pakistan) Ordinance 1962 also emphasised "commercial considerations".

71 *Industrial Nationalisation Order*, op. cit., Article 17 (1).

72 *Ibid.*, Article 22.

The Nationalisation Order defined to some extent the internal structure of the corporation. The whole responsibility for management and results was vested in the Boards of Directors of the corporation reported through the Secretary of the Ministry to the government and the Minister. The internal structure of the corporations was spread over various levels of hierarchy. The first level was, of course, the Chairman, the chief executive of the corporation followed by members of the Boards of Directors. As the Boards were functional and chairman and directors were appointed by government not as representatives of any interest group but as managers, their professional expertise was to be the criterion for appointment. The Nationalisation Order provided for appointment of not more than six such directors. All the positions in the Boards were not always filled up. The directors came to be designated according to the functional area which he was assigned to look after. This was determined generally in accordance with his specialisation and experience but frequently while a director was appointed the job specification of the incumbent was indicated by the title.

The Nationalisation Order did not attempt to indicate the internal structure of the enterprises placed under the sector corporations. The rules and regulations to be framed under article 25 and 27 of the Nationalisation Order were expected to cover those aspects. However, not all corporations prepared the respective rules and regulations even after five years of nationalisation⁷³. There was consequently a lot of ad-hocism in the working procedures between the corporation and the

73 BJMC published the Bangladesh Jute Mills Corporation Rules as late as in April, 1977. BJMC's Enterprises Board Regulations were prepared in late 1977.

enterprises and vice versa. The Guidelines⁷⁴ defined the respective rules of the corporation and enterprises regarding the working procedures - administration, personnel, labour procurement supplies, sales, financial matters, legal affairs, production planning and implementation, investment, incurring liabilities etc. The enterprises were required to obtain prior approval of the corporation in most of these matters. Not all the corporations had framed their regulations under P.O.27 as late as in January, 1978. Like the Board of Directors for the corporation, the government decided to have Enterprise Boards for the respective enterprises. The Enterprise Board was the highest policy making body at the enterprise level with the responsibility for achieving objectives determined by the corporation and the power to delegate the authority to implement the policies to an executive team⁷⁵. The Guidelines issued by the Cabinet Division in 1976⁷⁶ indicated that the enterprise Board might consist of the chief executive of the enterprise, Corporation Appointee and Workers' Representatives⁷⁷. As provided in the Guidelines, responsibility of an Enterprise of commercial nature was to

operate on commercial consideration, having due regard to national interests in the most efficient and economic manner within the policy framework and guidelines prescribed in the rules and regulations.⁷⁸

Unfortunately for the nationalised industries, for most of the period between 1972 and 1978 the relationship between the various components of the nationalised industries remained uncertain and continued to be

74 Cabinet Division, *Guidelines*, *op. cit.*

75 *Ibid.*

76 *Ibid.*

77 *Ibid.*, p. 10.

78 *Ibid.*

resolved as much by ad-hoc measures and expediency of the situation as by various rules, regulations, procedure usages and conventions.

B : LEGAL FRAMEWORK

The Legal Process

The decision to nationalise the large scale industries in March 1972 consisted of two distinct parts. The first part provided a legal framework for the taking over and management of enterprises abandoned by former non-local owners. The second part provided for nationalisation of three major large industries viz., jute and cotton textiles and manufacturing of sugar. The entire legal process of nationalisation of industries was completed in the following stages.

First, the State was empowered to take over control and management of industrial enterprises of the non-locals who had left the country and were not available to control and manage the enterprises. The government was authorised to take over management and control of any enterprises whose owners or directors could not be allowed to control and manage the same in the public interest. The government was empowered to take over control and management of any such enterprise or appoint a management board and administrator or could direct any public corporation, semi-government organisation or authority to take over its control and management⁷⁹.

Second, all industrial enterprises abandoned by non-locals were to vest in the Government of Bangladesh. The government was empowered

79 Government of Bangladesh, Ministry of Law, "Acting President's Order No. 1 of 1972 The Bangladesh (Taking Over of Control and Management of Industrial and Commercial Concerns) Order, 1972", Article 2, *The Bangladesh Gazette Extraordinary*, January 1972.

to administer, control, manage and dispose of the enterprises by transfer or otherwise and to take such measures as it might consider necessary or expedient. Boards could be constituted or administrators appointed for management of such enterprises⁸⁰.

Third, Bangladesh Industrial Development Corporation was established for the purpose of taking over the assets of the East Pakistan Industrial Development Corporation. As a result the business, projects and industrial undertakings of EPIDC stood transferred to and vested in the B IDC. This meant that all public sector industrial undertakings of EPIDC were transferred to and vested in the newly constituted B IDC⁸¹.

Fourth, government nationalised jute, cotton textiles and sugar industries and all the shares in each enterprise under the three industries stood vested in the government. Ten corporations were established having powers to exercise in respect of the following categories of enterprises:

- (i) all industrial enterprises in jute, cotton textile and sugar industries;
- (ii) abandoned industrial enterprises vested in the government;
- (iii) industrial enterprises owned and managed by a statutory corporation that the government might place under any of the corporations as constituted through the nationalisation order.⁸²

80 Government of Bangladesh, Ministry of Law, "President's Order 16 of 1972 The Bangladesh Abandoned Property (Control, Management and Disposal) Order of 1972", *The Bangladesh Gazette Extraordinary*, 28 February 1972.

81 Government of Bangladesh, Ministry of Law, "President's Order No. 39 of 1972 The Bangladesh Industrial Development Corporation Order, 1972", *The Bangladesh Gazette Extraordinary*, 9 May 1972.

82 *Industrial Nationalisation Order*, *op. cit.* Articles 4 and 10.

The Statutes

The principal nationalisation law, known as the Bangladesh Industrial Enterprises (Nationalisation) order, 1972 did not mention any reason or purpose or objectives for nationalisation of industries. The law was proclaimed through a Presidential Order and simply stated in its preamble that it was "expedient to provide for the nationalisation of certain industrial enterprises"⁸³. However, the law relating to the taking over of abandoned properties were more specific and stated the reasons for taking over was the absence of the owners and managers to occupy or supervise or manage in person their industrial enterprises. Another reason for taking over was stated to be in "public interest"⁸⁴. The text of the nationalisation order does not give an indication of any ideological motivation behind the decision to nationalise. The absence of any ideological incantation in the principal nationalisation laws is possibly explained from the fact that these laws were promulgated through Presidential Orders and not enacted through the Parliament. Moreover, Bangladesh did not have a Constitution at the time which was in the process of being framed. The First Five Year Plan which contains a lot of ideological cliches was yet to be announced. The nationalisation and taking-over orders, were, however, baptised by reference to the Proclamation of Independence of Bangladesh Order read with the Provisional Constitution of Bangladesh Order⁸⁵. None of these Proclamations attempt to define the ideology of

83 *Ibid.*, Preamble.

84 *Taking Over Order, op. cit. Abandoned Property Order, 1972, op. cit.*

85 For a text of the Proclamation of Independence Order, 10 April 1971 see *Bangladesh Document Vol. I. op. cit.*, pp.281-282. Government of Bangladesh, Ministry of Law, "The Provisional Constitution of Bangladesh Order, 1972", *The Bangladesh Gazette Extraordinary*, 11 January, 1972.

the State or its future economic or social programmes. Viewed in this context and in the absence of an expressed ideological motivation of the nationalisation decision as reflected in the law, some critics described Bangladesh socialism as socialism of abandoned property⁸⁶.

Whatever way nationalisation is viewed, it is necessary for a law that purports to establish a monopoly in favour of the State or State-owned corporations, to be reasonable (a) for a public purpose and (b) to provide for compensation⁸⁷. When one considers the wide range of opinion⁸⁸ as to the need for a requirement of "a public purpose" or "new objectives" for a definition of nationalisation, it is strikingly obvious that none of the prime nationalisation laws in Bangladesh, the Bangladesh Industrial Enterprises (Nationalisation) Order, 1972, the Banks (Nationalisation) Order, 1972 or the Bangladesh Insurance (Nationalisation) Order, 1972⁸⁹ did make an attempt to spell out the "direction to a new objective" of nationalisation or the enterprises so nationalised. The contemporary critique⁹⁰ on the constitutional provision dealing with the right to private property and the power of the Parliament to make laws was confined to the observation that compulsory acquisition should be made for "public purposes" and on "payment of compensation". But the State should have an "absolute

86 Abul Fazl Haq, *Constitution Making*, op. cit., p. 64.

87 R.S. Arora, "Rise of the Public Corporation in India: Some Constitutional Aspects", *Public Law*, (1961), pp. 362-385.

88 Most of the legal writings on nationalisation agree that "a public purpose" is an essential ingredient of the definition of nationalisation.

89 *Bangladesh Industrial Nationalisation Order*, op. cit. *Banks Nationalisation Order*, op. cit. *Bangladesh Insurance Nationalisation Order*, op. cit.

90 *Report of the Constitution Drafting Committee*, pp. 5-24, cited in Abul Fazl Haq, op. cit., p. 61.

right to nationalise any property to any extent with or without compensation. Perhaps at the time of promulgating the laws of nationalisation and in the absence of a constitutional consensus until then it was found not expedient to define the reasons or the public purpose of nationalisation. Probably it was left for the Constitution, industrial policy and the First Five Year Plan to identify the national as well as corporate objectives of the nationalised industries. It may also be argued that nationalisation law was prepared in great haste⁹¹. This evasiveness on the part of the basic nationalisation law in Bangladesh is in contrast with such laws in many other countries. Thus for instance, in Yugoslavia, the Preamble to 1946 Act specified the motive of nationalisation as the desire

to give a total impetus...to the principle of the collective ownership of the means of production, the main foundation of the state for the development of the national economy...(and to) the principle of the defence of the people against exploitation.⁹²

In Indonesia, the objective of a state enterprise as stated in the Indonseian law Perpu No. 19/1960 was

to participate in constructing a national economy in accordance with guided economy giving priority to the need of the people and to tranquility as well as to will to work within the enterprise, aiming towards the establishment of a materially and spiritually just and prosperous society.⁹³

In France nationalisation laws were preceded by the declaration of the National Resistance Council led by General De Gaulle that included nationalisation in its programme for the future organisation of France.

91 Interview with Mr. Azimuddin Ahmed who was a Deputy Secretary in the Ministry of Law at the time of promulgation of the Nationalisation Orders.

92 Katzarov, *op. cit.*, p. 59.

93 J. Panglaykim, "Some Aspects of State Enterprises in Indonesia", *Ekonomi Dan Kevangaw Indonesia*, Vol. 16, (1963) pp. 3-18.

Nationalisation was defined as

an economic system designed with a view to the development of national resources and not for the advantage of individual interests, in which the great sources of common wealth belong to the nation.⁹⁴

In Britain, the Labour Party adopted its formal objective as

to secure for the workers by hand or by brain the full fruits of their industry and the most equitable distribution there of that may be possible, upon the basis of the common ownership of the means of production, distribution and exchange, and the best obtainable system of popular administration and control of each industry and service.⁹⁵

This objective necessarily implies the introduction of nationalisation as a means to achieve it⁹⁶. Further, the specific laws of nationalisation mentioned the duties of the bodies so set up clearly and unambiguously. Thus the Coal Industry Nationalisation Act, 1946 charged the National Coal Board with the duty of directing the whole industry and making supplies of coal available

in such quantities and at such prices as may appear to (the Board) best calculated to further the public interest in all respects.⁹⁷

The Transport Act, 1947 nationalised rail communications, the docks, inland waterways lighterage and London Transport and placed the British Transport Commission under a

94 R. Gendarme, *L'Experience francaise de la Nationalisation industrielle et ses Enseignements Economiques*, (Paris: 1950) cited in Katzarov, *op. cit.* p. 43.

95 The 1918 constitution of the British Labour Party, Section 3. For a detailed exposition, see Hugh Gaitskell, "The Economic Aims of the Labour Party", *The Political Quarterly*, Vol. 24, No. 1 (January-March, 1953) pp. 5-18; Also Gaitskell, *Socialism, op. cit.* Harold Wilson, *The Relevance of British Socialism*, (London: Weidenfeld & Nicolson, 1964).

96 Strachey, *op. cit.*

97 Cited in Katzarov, *op. cit.*, p. 49.

general duty to provide or promote the provision of an efficient adequate, economic and properly integrated system of public inland transport and port facilities within Great Britain for passengers and goods with due regard to safety of operation.⁹⁸

The nationalisation law in Roumania was accompanied with the following government statement

The nationalization of the principal enterprises consolidates our economic and political independence, fortifies the forces in their struggle against the attempt of interference with out internal matters and rape of our independence, carried on by the Anglo-American imperialists. It stresses our role as an active factor of the democratic and anti-imperialist front.⁹⁹

Similarly in Iran, the Parliament adopted the following bill which became the nationalisation law

For the happiness and prosperity of the Iranian nation and for the purpose of securing world peace, it is hereby resolved that the oil industry throughout all parts of the country, without exception, be nationalized; that is to say, all operations of exploration, extraction and exploitation shall be carried out by the government.¹⁰⁰

Since the Second World War different States have attempted to consolidate nationalisation through legislative measures¹⁰¹. Article 4 of the Constitution of U.S.S.R. gave nationalisation a constitutional status. But even earlier, sanction for nationalisation was recorded in the Weimar Constitution in Germany in 1919. The Spanish constitution of 1931 gave sanction to nationalisation on the grounds of "common interest" and "where social needs so require"¹⁰². The Burmese constitution 1947 provided for expropriation of private property "if

98 *Ibid.*, p. 50.

99 N.R. Doman, "Postwar Nationalization of Foreign Property in Europe", *Columbia Law Review*, Vol.48, (1948).

100 Alan W. Ford, *The Anglo-Iranian Oil Dispute of 1951-52* (Berkely, University of California Press, 1954).

101 Katzarov, *op. cit.*, pp. 131-138.

102 *Ibid.*, p. 134.

the public interest so requires"¹⁰³. The Constitution of the German Federal Republic provided for exercise of expropriation and socialisation measures "for the good of the community"¹⁰⁴. Many of these constitutions when giving sanction to nationalisation cited reasons such as "public utility or social interest"¹⁰⁵, "public utility"¹⁰⁶ or "general interest"¹⁰⁷ or "national welfare and defense"¹⁰⁸. Compared to nationalisation provisions in many other constitutions, the relevant article in the Bangladesh constitution on nationalisation was not by itself, explicit about the motives behind nationalisation in Bangladesh. The Article 42 of the Constitution of Bangladesh merely stated

no property shall be compulsorily acquired, nationalised or requisitioned save by authority of law.

and that

a law...shall provide for the acquisition, nationalisation or requisition...¹⁰⁹

None of the nationalisation laws in Bangladesh, such as the Bangladesh Industrial Enterprises (Nationalisation) Order, the Bangladesh Banks (Nationalisation) Order and the Bangladesh Insurance (Nationalisation) Order did make a reference to public purpose or reasons of such actions except of expediency.

103 *Ibid.*

104 *Ibid.*, p. 135.

105 The Constitutions of Panama and Columbia cited in *Ibid.*, pp. 134-135.

106 *Ibid.*

107 The Constitution of Nicaragua, 1950, Article 70, Quoted in *Ibid.* p. 135.

108 The Constitution of the Philippines, 1935, *Ibid.*, p. 135.

109 *Constitution, op. cit.*, Article 42 (1 & 2).

P.O.27 provided for the establishment of certain corporations for the purposes of control, supervision and co-ordination of the nationalised and some other enterprises and for the establishment and development of new industrial enterprises and for matters connected therewith or incidental thereto;¹¹⁰

Here again, the law demonstrates a lack of clarity in words such as "for matters connected therewith or incidental thereto". Nor it is indicated unambiguously and definitely what objectives such "control, supervision and co-ordination of the enterprises" were to achieve. Furthermore, P.O.27 is an omnibus legislation of a general nature. A number of industries, such as jute, textiles and sugar manufacturing were nationalised and ten corporations were set up under which were the nationalised as well as the abandoned enterprises placed by the government. The enterprises placed under the corporations manufactured a diverse range of products and also were engaged in exploration, transmission and distribution of some mineral products. P.O.27 embodied provisions covering various aspects of these corporations such as, composition and powers of the boards of the directors, relationship with the government and the enterprises, financial and general affairs of business etc. All these provisions were, equally applicable to all corporations and their enterprises regardless of diversities in the areas of operation and nature of activities. This created an anomalous position for some corporations entrusted with special type of operation like oil and gas exploration and production which was obviously unlike most other corporations running industrial enterprises. It was difficult to accommodate diverse characteristics of the corporations and their enterprises through an omnibus legislation owing to the special

¹¹⁰ *Industrial Nationalisation Order, op. cit., Preamble.*

nature of activities and responsibilities of some of them. In a study attempting to analyse the need for a general law on the working of public enterprises in India it was shown that such a law would be impracticable as it would lead to greater rigidity by ignoring the individual characteristics of various enterprises¹¹¹.

Management and Legislation

According to some theorists, the State itself cannot directly exercise possession over the entire mass of its property. As the sole owner of its property, it can exercise possession only through its agencies to whom State property is turned over for operative control¹¹². The corporation functions and operate in the name of the State through a special juristic form, the form of legal personality. The personification of such industrial public corporation is thus a method of administering the function of the nationalised industries sector. The corporation being legal personality cannot set any goals for themselves, their goals are to be set for them by the State¹¹³. But the government did not, in the nationalisation order define the goals and objectives of the corporation nor the purpose of nationalisation. The mere assignment in respect of control, supervision and co-ordination for the affairs and business of the enterprises without identifying the goals, objectives or purposes of nationalisation and the nationalised enterprises was not adequate to evolve an appropriate

111 R.C. Mascarenhas, "General Law for Public Enterprise in India", *International Review of Administrative Sciences*, Vol. 30 (1964), pp. 398-403.

112 R.S. Arora, *Administration of Government Enterprises in India*, (New Delhi: Institute of Public Administration, 1969), p. 86.

113 *Ibid.*, p. 37.

organisational and administrative structure for the nationalised industries sector. Moreover at the time of promulgation of the nationalisation order there was obviously no clear conception about the exact place the nationalised industries, corporations and the enterprises were to hold in the administrative structure of government. As the economic, financial and social obligations of the nationalised industries and their corporations were not spelt out it was not clear if the industries were to be organised as business concerns or in the fashion of a government departmental undertaking.

According to the Nationalisation Order ownership of the shares, assets and liabilities and other proprietary interests in the enterprises lay vested in the government and the enterprises were to be controlled, supervised and co-ordinated by the corporations in respect of the activities, business and affairs. But there were some confusions in the interpretation of the provisions of the Nationalisation Order itself and controversies beleaguered those concerned with the management of the nationalised industries. It was stated that there were certain anomalies in the management status of the enterprises and in the relationship amongst the government, corporation and the enterprises. Attempts made to define the status of the three components of the nationalised industries and their relationship with each other in 1976 seemed to create more confusion. The "Guidelines on the Relationship between Government and Autonomous Bodies/Corporations and the Autonomous Bodies/Corporations and Enterprises under them"¹¹⁴ issued by the government were contradictory in many respects

114 Cabinet Division, *Guidelines, op. cit.*

to the provisions of P.O.27. While P.O.27 provided that all the shares vested in the government, the Guidelines stated that the shares might be held by the corporations. The Guidelines were not also in conformity with the Companies' Act. The enterprises became government companies in the Guidelines although no such term existed in the Companies' Act. The Guidelines also left out the "control" function of the corporations in respect of the enterprises¹¹⁵.

There were also debates whether the corporations might take the character of a holding company and the enterprises as its subsidiaries with authority to the corporation to hold share in the subsidiaries on behalf of the government and appoint the board of directors for the enterprises. It was argued that during pre-liberation time E.P.I.D.C. used to hold shares in its enterprises on behalf of the government and managed the affairs of the companies as managing agent through Managing Agency Agreement¹¹⁶. The controversies were not resolved until about the end of the First Plan period. Essentially, the points in issue were:

- (a) whether the government could authorise the corporations to hold the shares of individual enterprises on behalf of the government;
- (b) whether the corporations could form Board of Directors of individual enterprises though the government held shares of the enterprises;
- (c) whether the corporations could be authorised by the government to manage the affairs of the enterprises on behalf of the government or if it could be done through a management agency agreement between the Board of Directors and the Corporations, and

115 Interview with Mr. M.A. Malik, Joint Secretary, Ministry of Finance. November, 1978. Mr. Malik as a senior official in the Ministry of Finance was associated with various committee concerned with the operation of the nationalised industries.

116 Interview with Mr. Rafiquddin Ahmed, Chairman, BCIC. November, 1978.

- (d) whether the projects placed under the corporations which were not limited companies, could be converted into such companies within the framework of the prevailing provisions of the P.O.27 of 1972.

The extent of uncertainty and confusion can be understood from the fact that the enterprises which were already incorporated as limited companies were not functioning as per Memorandum and Articles of Association of respective companies and could not fulfil the requirements of the Companies' Act. Moreover, the boards of directors for enterprises that were legally limited companies either did not exist or wherever they existed, they came in conflict with the corporations¹¹⁷. The "anomalies" said to exist really related to questions about the legal status and character of the companies which were placed under the corporations and the extent to which the Companies' Act continued to be applicable to such companies. The entire scheme of the Nationalisation Order (P.O.27) seem to have, on the one hand, retained the corporate status of an industrial enterprise and allowed the enterprises to function as companies as they were functioning before the promulgation of P.O.27. The properties owned by the enterprises continued to be considered as the properties of the companies and as such the companies continued to conduct the business and affairs relating to those properties. On the other hand, government was not only the holder of all the shares of the industrial enterprises considered as companies but also the owner having proprietary interest in those enterprises. The companies which formerly owned the enterprises had no proprietary interests in the enterprises. However, they continued to exist despite their lack of ownership. In other words, a company

117 *Interview* with Mr. Anwar Hussain, Director, BSEC, November, 1978.

placed under the corporation under P.O.27 of 1972 existed in name only though the board of such a company was being appointed by the government. The Boards of companies placed under Sector Corporations although constituted by the government were not the same as constituted under the Memorandum and Articles of Association of a Company or the Companies' Act. It was a Board completely subservient to the will and wisdom of the government¹¹⁸. Not only had the provisions of the Companies' Act relating to the mode of appointment of directors been superseded but also the very concept of the Board of Directors as a body vested under the law with power of company management was completely substituted by the wide sweep of power which was reserved for the government¹¹⁹. Since the government was the owner of the enterprises, they could be managed in any way it liked. If the government managed the enterprises through the Board of Directors it was in order. The corporation on the authority of the power delegated by the government could form management board¹²⁰. The corporations exercised powers of control, supervision and coordination of the enterprises and hence also of the management board of the enterprises. The corporations were placed in a managerial position in relation to the government. It was also considered that the affairs of the individual enterprises including companies could be fully and effectively managed by the corporation on behalf of the government without having resources to any managing agency agreement¹²¹. Since the affairs of a company could be effectively managed by the corporation on behalf of the

118 *Interviews with various officials in the corporations and enterprises. November, 1978.*

119 *Industrial Nationalisation Order, op. cit., Article 5.*

120 *Ibid.*

121 *Ibid., Article 17.*

government without having recourse to the managing agency agreement, there was no legal necessity for authorising corporations to hold shares on behalf of the government. Moreover, the management of an individual enterprise had nothing to do with shares of the company. There were also controversies whether the projects which were placed under corporations but not limited companies ought to be converted into companies. The government decided that majority of enterprises under corporations in the Ministry of Industries should be converted into limited companies to allow them to run on commercial considerations and give them a legal status¹²². But P.O.27 of 1972 does not mention anything about conversion of projects into companies. The only restriction imposed by the Order seems to be in the case of scheduled industrial enterprises other than specialised textiles which have been debarred from selling or transferring their assets to anybody. This created legal difficulties for a project wishing to transfer its assets to the Company by vendors agreement. This led subsequently to an amendment of P.O.27 of 1972¹²³. It was argued that a distinct legal entity with an established reputation and goodwill in the market would be an irrefutable advantage for the enterprises strictly from commercial point of view. A legal entity for the enterprises would also give the government and corporations relief from getting directly involved in production and commercial activities or from getting involved into a financial commitment or litigations commercial or otherwise on behalf of the enterprises. It would help to build up requisite capabilities

122 This decision was taken by the government in June, 1978.

123 First Proviso to Clause (2) of Article 4 of P.O.27 of 1972 was substituted as per decision of the government in June, 1978.

for responsible decision making at the enterprise level and attract potential foreign buyers who would be otherwise unwilling to deal with the government directly in view of a possible defence of sovereign immunity. It was also pointed out that a majority of the industrial enterprises in the public sector including nationalised sector were having separate legal entity¹²⁴.

C : ADMINISTRATIVE FRAMEWORK

Diffusion

Decision making at the macro-level is a cycle consisting of planning, structuring, directing and controlling¹²⁵. Essentially the character of the top-level decision making in a public or a private enterprise should be similar. But it may not be true of the locus of such decision making in a public enterprise. In contrast to a private enterprise whose top management can be located easily in its board of directors, there is more than one layer of potential decision makers. It is not always easy to discern where such decision making takes place. It may be the Board of the Enterprise or its Chief Executive, or it may be the Corporation Board or its Chairman. The decision may also be taken by the Minister, or by the Permanent Secretary of the Ministry, or by someone in the departmental hierarchy in the secretariat. The

124 Interview with Mr. Nasimuddin Ahmed, Joint Secretary, Ministry of Home Affairs, November, 1978. Mr. Ahmed served as a Joint Secretary in the Ministry of Law and was associated with various law making processes regarding the nationalised sector.

125 J.M. Shrinagesh, "Organization For Top Management", *The Indian Journal of Public Administration*, Vol. 10, 1964), pp. 497-505.

issues may also be referred to the Secretaries' Committee¹²⁶ or deliberated in the Industrial Consultative Council¹²⁷ or even they may be put up for the approval of the Cabinet.

The Nationalisation Order, Guidelines issued by the Cabinet Division, Rules of Business and the Articles of Association, Rules and Regulations framed on the basis of the law and Guidelines all defined the decision making powers and functions of top management of the nationalised industries. These may, and in fact do, change at the instance of the government from time to time. Despite this it seems that the macro level decisions were taken in nationalised industries in Bangladesh in a number of places in the organisation. These varied according to the nature of the activities and structure, to the powers granted to the corporations and enterprises by the Nationalisation Order, the executive directives, rules and regulations and to the various interpretations at different levels that was inevitable. Similar considerations apply to the performance of management functions. In practice, the point of decision was often settled by an interplay of interpretation of the rules by the Ministers, Permanent Secretaries, Chairmen and Directors of the Corporation Boards and the Chief Executive and his board at the enterprise level. Thus for example, in the domain of planning, the preparation of broad plans, the definition of objectives, the preparation of budgets, deadlines of

126 Committee composed of Secretaries to the government in charge of the Ministries and Divisions were constituted to provide support to the Cabinet and also to co-ordinate activities between various ministries and divisions.

127 The Military Government decided to constitute some national level consultative councils in various fields, such as, agriculture, rural development, education, labour, population control and industries. Each council, consisting of the officials, representatives of different interest groups nominated by the government and members of the Presidential Advisory Councils was mainly deliberative.

programmes and the settlement of methods, all required decision making at the higher level. In the case of nationalised industries macro-planning was undertaken by the government in the ministry concerned and the Planning Commission. The government formulated policies define the objectives, set the budget and the dateline, decide on pricing policies on the products of the nationalised industries and often settle the processes to be adopted by the nationalised industries.

Although the government retained all pervasive powers it was in exercise of control functions that one finds both diffused management and confused procedures. The control exercised not only by the administrative ministry concerned about the operation but also the ministries of Finance, Planning, Labour and Welfare, Commerce and Law and the Establishment Division in their respective jurisdictions. The decisions and recommendations of the public bodies like the Public Service Commission, The Administrative and Services Reorganisation Committee, Pay and Services Commission, Industrial Workers' Wages Commission, Industrial Workers' Wages and Productivity Commission, and similar other continued to influence the structure, functions and performances of the nationalised industries in multifarious ways.

For quite some time, there was no defined pattern according to which the key functions were to be apportioned to the different authorities who were concerned with the management of the nationalised industries. Each ministry had its own system of apportionment, each Minister and Secretary had his own views on the way the top management functions were to be divided and performed. At times, through various Secretaries' Committees, both standing and ad-hoc some general agreement was reached. Thus on various occasions a consensus on pricing

of the products of the nationalised industries, interministerial and inter-corporational claims and counterclaims or resolving a particular financial or organisational problem of a sector could be arrived at the level of the Secretaries' Committee. At times a ministry on behalf of its corporation attempted to secure the support of the Secretaries' committee before initiating an important policy or programme.

A cursory view of the top management of the nationalised industries suggested that the broader plans and the setting of goals were left largely to the ministry of the government. The internal structuring of the organisation was generally left to the initiative of the Board or its chief executive, although to give it effect, approval of the government was required. The direction of the enterprise was generally left to the Board of the corporation and a comprehensive information system was contemplated and partly introduced. But a widely dispersed and overextended structure and diffused apportionment led to friction in the top management¹²⁸ and also a lack of opportunity for the executive development. The function of top management were divided among the Minister, the Secretaries and the Corporation Boards. Although the Directors of the Board are appointed by the government to coordinate work as a team¹²⁹ the line of demarcation has not been always clear. As a result some tension and confusions prevailed between the secretariat, corporation and enterprises. One manifestation of this

128 Before nationalisation each enterprise had its own board of directors. One or more directors used to personally look after the management of the mill. See, Bangladesh Bank, *A Study of Jute Industries in Bangladesh* (Dacca: J.U. Ahmed & Co., 1973).

129 *Industrial Nationalisation Order, op. cit.*, Articles 11, 12, 13, 14 and 15.

was the controversy regarding the practicability of having a "corporate division". The question was whether the corporation would also be clothed with the power of a division in the ministry. It was argued that investing the corporation with the authority of the government would enable it to take quick and flexible "Board decisions" instead of "slow and rigid bureaucratic decisions" of a traditional government variety¹³⁰. Moreover within the Board and with its relationship with the secretariat at times interdepartmental rivalries, former cadre affiliations and different professional backgrounds of the top management personnel in the nationalised industries were not conducive for building up team spirit¹³¹. There have also been frequent changes in top management position at the different layers of the nationalised industries. The government seemed to have not given due weight to the fact that team spirit and continuity is as essential in the public sector as in any other organisation. Frequent changes in the structure of the corporation (mergers, additions, disinvestment, renaming, intercorporation transfer of enterprises, changes in the ministerial responsibilities

130 Petrobangla and BJMC were given the status of ministerial divisions thus combining the regulatory authority of the government with commercial operation of the corporation in a single legal person.

131 The chairmen and directors of the corporation boards who were members of the "elite" administrative cadre (former Civil Service of Pakistan) were, in particular, subject to virulent attack from the "professional group". A former chairman of Petrobangla and sometimes secretary to the government for the Ministry of Petroleum and Natural Resources, himself a technical personnel who did not belong to a civil service cadre, branded the "generalist" administrators as "peddlers of poison" and "showboys", see, *The Bangladesh Times*, 4 May 1977. The composition of the corporation boards was varied. The members were not always appointed considering if they would be able to work as a team. The decisions seemed to hinge more on availability of suitable personnel. In the first boards constituted immediately after nationalisation there was only one civil servant chairman. See Sobhan, *Nationalisation*, *op. cit.*

also did not help to develop top executives, inculcate integrative behaviour in them and foster better relationships among the various component of the top management. While in a private enterprise the top management can work together as a team as their main objective is the economic well-being of the financial interest in the enterprise, in the nationalised industries these conditions did not necessarily exist. It was therefore, necessary for the government to demarcate the function of the different layers of management both vertically and horizontally in unambiguous terms if rivalry and antagonism within the top management was to be avoided.

Routinization of Procedures

In Bangladesh, the influence of government methods of work in the management of the nationalised industries seemed to be pervasive. As their own rules and regulations were not framed soon after nationalisation, the corporations too often tended to operate on existing governmental rules, regulations and procedures. For instance, the Fundamental and Supplementary Rules, the Government Servants' Conduct Rules and the instructions issued by the government in its amplification, the governmental Pay Scales etc. were either applicable or used as a guide. The office procedures were often the same as in government offices. Similarly the accounting and stores, purchase procedures were tied down to the standard procedures in government departments. As the corporations were slow to frame their own work rules and procedures and evolve their own system of work suited to their own needs and requirements they functioned and tended to be treated as a subordinate office of a government department rather than an autonomous

public corporation. There have been only half hearted efforts to devise and introduce rules, regulations and procedures suited to commercial operation. The corporations did have the power to make regulations for all matters for the purpose of giving effect to the provision of respective act, laws and rules. In practice however, the power remains inhibited even if it was explicitly guaranteed by the Nationalisation Order. Thus, for instance, the corporations were given the power of appointing office consultants, advisors, auditors and employees necessary for its requirement. The corporations could not, on its initiative and without reference to the government, devise the specific administrative structure which met the needs of a particular corporation. The organogram of each corporation was to be approved by the administrative ministry prior to any recruitment, appointment, promotion etc. Rules and regulations were to be framed for the purpose that needed prior approval by the government¹³². The legally sanctioned administrative power could thus be hardly used to create new position. Specifics with regard to personnel policies and practices and contact with suppliers (procurement of materials and technical personnel) were not left to the discretion of the corporation alone. Administrative flexibility in response to specific needs inherent in industrial, commercial and management problems could not emerge due to various restrictions placed by various executive orders. The statute itself had put embargoes on the freedom of the corporations. The flexibility, as a by-product of autonomous powers to permit management to avoid delays was elusive. The corporation was guided in the discharge of its function, by such instructions as might be given by

132 Cabinet Division, *Guidelines, op. cit.*, p. 3.

the government. All the powers of the corporation were subject to any regulation that might be made by the government and the corporation exercise only such powers as might be prescribed or delegated to them by the government¹³³. Under the circumstances it was difficult to assert that the corporations were governed by less crippling rules than the governmental departments. Undoubtedly the First Five Year Plan noted the need for developing appropriate rules and for decentralisation and delegation of authority for matters such as employment practices, purchases and exports¹³⁴. But little enthusiasm was ever demonstrated to give them some meaningful effect. There is not much evidence to suggest that the corporations in Bangladesh have encouraged the assumption of initiative on the part of its officers and employees. In comparing sector corporation personnel practices, recruitment, in-service training, salary and fringe benefits etc. the corporation practices did not reveal much innovation. Innovations and initiative were equally lacking in the area of financial administration. The concept of programme budgeting had not been introduced in the corporation. Although budget analysis, preparation and administration was decentralised permitting those individuals close to the situation to make fundamental decisions, the type of budgeting and auditing employed closely resembled that of other public agencies. Thus in the departmental tradition the sector corporations seemed to have routinized their procedures. The Boards in the corporations could not take many decisions without prior ministerial approval. Raw materials were strictly controlled as was foreign exchange. Frequent references of decisions to the

133 *Industrial Nationalisation Order*, *op. cit.* Article No. 17.

134 *FFYP*, *op. cit.* p. 250.

ministries was certainly the result of external pressure placed upon the corporations, but the routinization of activities, the development of detailed operational rules and procedure and delays in execution of programmes were the results of internal decisions. From the beginning, the sector corporations tended to behave like a typical governmental agency. In fact the overall tendency of the officials and the employees in the nationalised sector seemed to consider themselves as state employees. From the inception the sector corporations developed or borrowed work procedures and regulations from the government agencies. As the government did not control with clear statement of economic and social obligations of the nationalised industries, the management of the nationalised sector could not, on its own volition use the drives of business. The vices of red tapism became apparent. The techniques of management became static and mechanical. It became hard to emphasize the strategic value of "government of corporation". The objective of the avoidance of the pitfalls which affect departmental administration seemed hardly accomplished by the corporation form.

The Bureaucracy

It has been said that even under the best of circumstances Bangladesh would constitute a complex development problem¹³⁵. After Liberation the same overextended and inadequately motivated and inherited administration was asked to implement a development programme. The management vacuum resulting from the exodus of Pakistani entrepreneurs and nationalisation was temporarily solved by promoting Bengali managers to senior positions or by secondment of civil servants. The promotees

135 I BRD, *Rural Economy*, *op. cit.* p. 5.

did not have the experience and could not immediately adapt to the new dynamics of the public enterprise operation. The civil servants with their "law and order orientation" and some experience in executing development programmes generally found industrial management challenging but an onerous responsibility. The lack of experience generally led to delays in the decision making process and an inability to seize economic opportunities. This was notwithstanding the fact that many of the officials were men of great ability (as a World Bank report recognized).¹³⁶ Indeed some of the most able and skilled members of the society were in government service¹³⁷. Yet the administrative system, according to all observations, was ill fitted to the tasks of industrial and economic development in Bangladesh. It was alleged that the administration had succumbed to political pressures and suffered from widespread corruption. The all encompassing expansion of state activities and controls and nationalisation of all important areas of economic activity made the administration more susceptible to such malaise.

Bureaucracy has been very often considered as an impediment to development administration¹³⁸. Although typologies of administrative diseases have not yet been developed¹³⁹ the main deficiencies of the administrative philosophy handed down from the pre-liberation period relate to areas of adaption of decentralisation and modernisation of personnel practices, public service policies, financial administration and budgeting, streamlining of accounting system and improvement of

136 *Ibid.*, p. iv.

137 *FFYP, op. cit.*, p. 5.

138 R.S. Milne, "Bureaucracy and Development Administration", *Public Administration*, Vol. 51 (Winter, 1973), pp. 293-320.

139 *Third Five Year Plan, Pakistan, op. cit.*, p. 160-161.

systems and procedures and forms in use in government offices, codification of rules and regulations and ensuring a continued supply of justified and trained personnel at all levels in the light of carefully assessed requirements¹⁴⁰. The civil service tradition in Bangladesh seems to suffer from many of the pathology and dysfunctions for which any bureaucracy is criticised¹⁴¹. It has been a frequent contention that Weberian bureaucracy is unsuitable for conditions in a developing country and that it should be deliberately rejected as a model or a guide. Some scholars have raised the question if such a contention should be left without sufficient examination¹⁴². The criticism about the elements of a generalist tradition and paternalistic authoritarian tenor of administration has been levelled against the higher civil servants¹⁴³ in Bangladesh. This is perhaps open to serious scrutiny. As in India¹⁴⁴ the positive contributions of the higher civil service in a developing country seems often insufficiently acknowledged.

The administrative machinery in Bangladesh was involved after the Liberation, in the total national efforts to provide a sound foundation after the traumatic experiences of the immediate past, for sustained economic growth, for increasing opportunities, for gainful employment and for improving living standards and working conditions

140 *Ibid.*

141 See for example, Christopher Hood, "Administrative Diseases: Some Types of Dysfunctionality in Administration", *Public Administration*, Vol. 52 (1974) pp. 439-453; R.M. Thomas, "The Rejuvenation of Public Administration in Developing Countries", *Journal of Administration Overseas*, No. 2 (April, 1974) pp. 367-73; S.C. Dube, "Bureaucracy and Economic Development", *Indian Journal of Public Administration*, Vol. 12 (1966) pp. 343-351.

142 Milne, *op. cit.*

143 *Supra*, fn. 131.

144 Dube, *Bureaucracy*, *op. cit.*

of the people. The fact of few Bengalis in the higher echelons of the civil service posed problems that arose from the gross under-representation of the Bengalis in the united Pakistan¹⁴⁵. On top of this the new state started on its independent career without the services of its senior and experienced civil servants who remained stranded in Pakistan since the beginning of the Liberation war. Moreover, a sufficiently large number of the civil servants possessing skills and experience in various other segments of administration was not readily available. A provincial government was suddenly catapulted into the central government of an independent nation¹⁴⁶. The weakness of the civil services increased due to the dissimilar backgrounds of the civil servants which resulted as a direct consequence of the Liberation war. The government in exile was manned by a hastily assorted group of persons united in their determination to win freedom but mostly young and very often lacking enough previous administrative experiences. The new government in Bangladesh set out to replenish its civil service by recruiting generally on contract basis personnel from professions like teaching, journalism, etc. and from the private sector. Such persons moved into government to occupy middle and senior positions. The lateral entries came under severe criticism on the ground that it was politically inspired and has been hardly distinguishable from the spoils system¹⁴⁷. The bureaucracy was

145 See Lambert, *Bengali Regionalism*, *op. cit.*, Akanda, *Regionalism*, *op. cit.*, pp. 103-163, Rounaq Jahan, *Pakistan: Failure in National Integration*, (New York: Columbia University Press, 1972)

146 Shiriram Maheshwari, "Problems of Public Administration in Bangladesh", *Indian Journal of Public Administration*, Vol. 36 (1975), pp. 385-98.

147 A.T.R. Rahman, "Administrative Culture in Bangladesh", in J.R. McLane ed., *Bengal in the 19th and 20th Centuries*, (Michigan State University, Asian Studies Center, 1975), pp. 119-152.

further weakened due to the tension among its various components - those who stayed behind within the country and those who joined the liberation war having crossed the frontiers and those who were stranded in Pakistan. There were also intense jealousies among the services according to cadre affiliations¹⁴⁸. It was therefore not easy to weld the divergent groups into a harmonious and integrated team vital for meeting the challenge of nation building¹⁴⁹.

The greatest challenge for the civil service in Bangladesh in the new milieu was its relationship with the political leadership. During the pre-liberation period administration, its values, pattern, leaders, is said to have dominated the political environment¹⁵⁰. The bureaucracy in association with the army then played a decisive role not only in internal management of its systems, procedures and relationships, but also in the decisions involving basic economic, political and social issues¹⁵¹. The bureaucrats came to possess power so important and evident that it can only be termed political¹⁵². The civil service was accountable only within the bureaucratic hierarchy. Security of the tenure was guaranteed by the constitution. The strength of the civil service was sustained through monopoly occupancy of key posts and by securing major involvement in the new development

148 There were many cadres in civil services some belonging to the erstwhile central and some to the erstwhile provincial governments.

149 The factionalism within the services continued throughout the period under study. Later, the Military regime seemed to have taken political advantage of this inter-service jealousies.

150 A.T.R. Rahman, *op. cit.*

151 *Ibid.*

152 Guthrie S. Birkhead, ed. *Administrative problems in Pakistan*, (New York: Syracuse University Press, 1966), p. 211.

institutions like the Planning Commission and public enterprises which proliferated during the previous decades. Simultaneously the members of the bureaucracy developed necessary skills both within and outside the country. There was of course opposition to bureaucracy that came from several sources - politicians, professionals especially engineers, doctors and teachers. But the bureaucracy demonstrated a tenacity to survive during the pre-liberation period¹⁵³. However, during the post-liberation period the strength of the civil service seems to have continuously eroded. First of all, the Awami League Government did not take positive steps to reestablish the civil bureaucracy after the dislocation of the Liberation war¹⁵⁴. Instead persistent Awami League interference undermined the strength of a civil service¹⁵⁵ which had been instrumental in bringing about significant economic development¹⁵⁶. Secondly, the military in its inflated ego resulting from enjoyment of a sustained power for nearly two decades before and after Liberation set the outer limit¹⁵⁷ of the influence that bureaucrats and other groups could exercise in the national system.

In the liberated Bangladesh, the weakened bureaucracy was expected to work in the framework of democratic control. The reversal of positions in the relationship between administration and political

153 S.J. Burki, "Twenty Years of the Civil Service of Pakistan: A Re-evaluation", *Asian Survey*, Vol. 9 (April, 1969), pp. 239-254.

154 Maniruzzaman writes: Thus, by the end of 1974, there was not any civilian institutional group in Bangladesh to implement Mujib's program of national reconstruction. See Maniruzzaman, *Bangladesh 1974*, *op. cit.*

155 Oren, *Bangladesh Coups*, *op. cit.*

156 Maniruzzaman, *Economic Crisis*, *op. cit.*

157 A.T.R. Rahman, *op. cit.*

system became a reality. The civil servants were not immune any more from the popular control and pressures. While this may not be in a democracy, it presupposes neutral and autonomous socio-political institutions. In spite of Mujib government's publicly stated attachment to the ideals of democracy, the policy pursued did not leave any room for a neutral bureaucracy. Instead the pattern that emerged in institution building was similar to those followed in many countries with totalitarian government. The growth of one monopoly political party, the gradual development of party affiliated organisations of key interest groups (e.g. students, youths, labour etc.) and the attempt to replace the traditional regional administration by a directly elected local government contributed to inhibit the bureaucratic neutrality and making it completely subservient to the political party. The security of tenure of service through constitutional protection was lessened in an effort designed to encourage innovation, hard work and greater conformity to the interests of the political party in power. The structuring of the services was to become less archaic and elite oriented, with fewer classifications and more scope for mobility within and between various services. Additional positions were created to provide opening for non-bureaucrats. Some of the positions previously reserved for the members of the higher civil services were opened up so that party sympathisers (and later in the military regime the 'retired' officers of the armed forces) could be appointed. The victims of the Liberation war were to be specially treated for the purpose of employment and a large number of freedom fighters were appointed in the superior services through special examination¹⁵⁸. Recruitment was made from the freedom fighters

158 Selection was arbitrary and quality of the intake was generally poor.

for a newly constituted cadre named Industrial Management Service¹⁵⁹ when all cadres were virtually abolished. The rigid seniority rule was discarded. Loyalty and closeness to the regime were among the criterion used for selections of appointees to higher administrative posts. Any civil servant could be dismissed without the right of appeal¹⁶⁰.

The indictment of the civil services by the political elites was not rationalised in the name of new and improved conceptual and operational framework in the form of socio-economic models, economic and social planning devices and programming of the total objectives to render the national development manageable and practicable.¹⁶¹ Of course, the Awami League manifesto of 1970 called for a radical restructuring of the administrative machinery "in order to serve the needs of a dynamic, democratic society"¹⁶² and the existing administrative machinery was proclaimed a colonial legacy. The steps by which the Awami League intended to implement its policies were twofold. On the one hand abolition of all central superior services¹⁶³ and leaving federal services only for administering foreign affairs and defence, and on the other hand, creating specialised professional cadres separately for the provinces and strengthening local government institutions

159 This cadre was abolished in 1978.

160 This was popularly known as P.O.9. For a text, see Government of Bangladesh, Ministry of Law, "President's Order No. 9 of 1972, Government of Bangladesh (Services) Order 1972", *The Bangladesh Gazette Extraordinary*, 24 January 1972.

161 See for a parallel in J.I. Iboko, "Developing the Administration in a Developing Country", *International Review of Administrative Sciences*, Vol. 38 (1972), p. 193-197.

162 *Awami League Manifesto*, op. cit.

163 Various cadre services organised to run the government affairs on behalf of the central government were to be abolished.

including geographical readjustments of the basic administrative units.

The conflicting views of the Awami League were demonstrated in the First Five Year Plan. The Plan did realise the role of the civil service in the implementation of the development policies but simultaneously introduced the concept of political cadres primarily to perform watchdog functions. The Plan identified such political cadres as "an essential element in the revolutionary transformation of society"¹⁶⁴. However, the concept of political cadres was not likely to be more than a parallel hierarchy in administration. In fact, all the contemporary evidences suggest that such a political cadre was bound to degenerate into corrupt bureaucracy¹⁶⁵. The extent of corruption and use of spoils system during the Awami League regime was too potent a factor to suggest an interpretation to the contrary.

The extent of the ambivalence of the Awami League was also demonstrated in its handling of the reports of two committees that were constituted by the government for administrative reforms, reorganisation of the services and formulation of a rational pay structure relating to all employees in the public sector. The report of the Administrative Services and Reorganisation Committee was known to have emphasised the importance of specialisation including for the generalists in administration¹⁶⁶. Merit was to have preponderant importance for promotion. The importance of ensuring the administration unfettered by political interference was advocated. The Committee also made recommendations for simplification of procedures and above all a unified civil service structure thus trying to eliminate the bane of "elitism". But the

¹⁶⁴ FFYP, *op. cit.*, p. 7.

¹⁶⁵ Maheswhari *Public Administration Bangladesh, op.cit.*

¹⁶⁶ Government of Bangladesh, Administrative Services and Reorganisation Committee, *Report Vol. 1*

government did not take a decision on the report and for all practical purposes the report was shelved. The report of the National Pay Commission was however accepted to the extent of its recommendation on the pay structure. By the time it was being processed for implementation, the suggested pay structure became virtually out-dated because of the hyperinflation that was raging over Bangladesh. On the whole the two reports during the Mujib regime on the aspects of administrative reorganisation seem to have been sincere attempts by those who prepared the reports. But the obsession of the Awami League government with party interests precluded any possibility of a genuine effort for administrative reform.

The military regime was also besieged with the problems of recasting the bureaucracy and readjustments of grades and pay scales and other related issues. Tangible reforms remained elusive as before. It is quite significant that the military rulers initiated their new move to "reorganise" the civil services structure and reformulate a pay structure in spite of the two voluminous reports mentioned above during the Mujib regime. The Report of the Pay and Services Commission prepared at the behest of the military regime seems to have helped create more controversies and agitations¹⁶⁷. It was suggested that the military regime's exercise made "no sense at all" and created "a mess"¹⁶⁸. It was argued that the exercise demonstrated an insensitivity by the authors of the report to the social, political and economic situation in the country and also their unfitness to handle delicate issues¹⁶⁹. Thus the

167 See *The Holiday*, 12 March 1978, wrote: "Pay report needs total reform".

168 *Ibid.*

169 *Ibid.*

fundamental issues regarding the role of the civil servant still remained undefined. If the bureaucracy in Bangladesh was top heavy, expensive and alienated from the people whom they serve, it was for the political leaders to take such decisions as would make it "people oriented". As an agent of the government the qualitative change in the bureaucracy can only be effected by a conscious decision of the ruling elite. The Awami League regime like the pre-liberation ruling elites made an attempt to politicise bureaucracy to perpetuate their own ends. The military regime because of its own political imperatives apparently did not make tangible efforts like its predecessor to clearly identify the role of the bureaucracy and sought to keep the civil services factionalised. Their exercise in reorganisation of services and reformulation of the pay structure assisted this aim.

Hoyle¹⁷⁰ observed that the politicians and even planners scarcely realise the imperative need for the creation of a strong administrative structure for the successful implementation of an ambitious development plan. The very obvious fact that the plans are not self executing is not often sufficiently appreciated by the politicians. Following O'Connell it may be stated that the ruling elites of the successive regimes in Bangladesh seem to forget that

it was the professional administrators who maintained the continuity in the public services that underpinned the popular consent to be ruled.¹⁷¹

Under such circumstances it is not surprising that the administrative

170 A.R. Hoyle, "The Role of the Civil Service in the Development Process", *Journal of Administration Overseas*, Vol. 11 (November, 1972) pp. 45-52.

171 James O'Connell, "Politicians, Administrators, and the Problems of Modernisation", *Journal of Administration Overseas*, Vol. 6 (April, 1967) pp. 121-125.

efficiency deteriorated since Liberation¹⁷². Galbraith advocated pragmatism and adaptability for an administrator to be successful¹⁷³. It has also been said that only the best and most dedicated administrators can keep up their morale in the context of poor political leadership¹⁷⁴. Viewed this way the civil servants in Bangladesh have shown adaptability and patriotism. They were the only social group which had sacrificed a major portion of their earnings in the early months of poor financial condition of their country. They have faced the inflationary spiral essentially the creation of the ruling elites without causing disruption in the civil administration. However, their weakened role significantly affected the quality of the personnel in the nationalised industries and had lasting effects on the capacity of those industries to meet development expectations.

Summary Observation

The decision to nationalise certain industrial enterprises was taken before the Constitution of the Republic of Bangladesh was adopted in the legislature. Of course, the decision derived its force from the Proclamation of Independence of Bangladesh and the Provisional Constitution of Bangladesh Order, 1972. Besides nationalisation of certain industries mentioned in the Nationalisation Order, the industries left abandoned by the aliens were taken over by the State under the Bangladesh Abandoned Properties Control, Management and Disposal Order,

172 See Maheshwari, *op. cit.*, Maniruzzaman, *Economic Crisis, op. cit.*, Jahan, *Bangabandhu, op. cit.*

173 John K. Galbraith, "Public Administration and the Public Corporation" *Indian Journal of Public Administration*, Vol. 7 (October-December, 1961) pp. 438-446.

174 O'Connell, *op. cit.*

1972. Later, the Constitution of the People's Republic of Bangladesh was adopted in November, 1972 which declared that a fundamental aim of the State would be to realise a socialist society, free from exploitation, through democratic processes. It was also laid down that a socialist economic system would be established with a view to ensuring the attainment of the same goal. It provided for a State ownership (besides cooperative ownership and private ownership as prescribed) by the State on behalf of the people through the creation of a nationalised public sector embracing the key sectors of the economy. The Nationalisation Order however, did not state a reason or purpose or objective of nationalisation in the statute itself. It did not make an effort to explain the nationalisation decision from any point of view - ideological, political, economic or otherwise and mentions only "expediency". While the conditioning factors leading to this absence of a clause on objectives in the nationalisation statute can be traced in the political and socio-economic conditions as obtaining in the country before and after the Liberation, the genesis of the management system, organisation and style also seems to lie herein.

Operationally, the Nationalisation Order prescribed the corporation form of management for the nationalised industries as the institutional device. The provisions of the Order, however, appear to have equipped the government with preponderant dominion in respect of any measure or action as might be deemed necessary or expedient. The hierarchy developed was a four tier system - cabinet, ministries, corporations and the enterprises. The relations and even the legal status were left unresolved. Owing to the preponderance of civil service practices the corporations soon began to be run like government

departments. In the virtual absence of a professional management class, the civil service traditions lingered on. The implications of the envisaged socialist economy were not explained and there was a tendency of centralisation which went on to negate the operational freedom of the corporations. The administrative efficiency of the civil servants also declined after Liberation due to the loss of morale and continued interference and negligence by the ruling elites.

The vast complex of industries compressed into a few corporations made the organisation extensive, unwieldy and overcentralised. The corporations attained a monolithic character, although subservient to ministries for virtually everything.

CHAPTER V

THE OPERATION OF THE NATIONALISED INDUSTRIES

Nationalisation in Bangladesh was launched in an environment where the ruling elite found it convenient to maintain an ambiguity in respect of the goals, objectives and purposes of their action. In the preceding chapter it has been suggested that the lack of clarity in goals, objectives or purposes of nationalisation had influenced the organisation structure and the management style of the nationalised industries in ways which inhibited smooth operation. In this chapter, some aspects of financial operation, production, marketing, distribution and expansion programmes will be discussed with a view to see if a policy vacuum existed in these areas also. It will be examined if the ways of financing, the sources of funds, channels for obtaining finance, capital structure and generation, disposal, accumulation and appropriation of surplus, spheres of activities and the extent of independence in the operational processes were clearly spelt out. It will be probed if the policy measures, institutional framework and financial flow were simultaneously activated to synchronise with the target set or as perceived and if the ground rules and policies concerning investment, pricing, marketing, profitability were drawn up and while doing so whether the policy makers took adequate cognizance of the economic and political implications. The professed socialist economy was never explained in the context of Bangladesh. The functional responsibility of the nationalised industries in the avowedly socialist construction of the Bangladesh economy was not delineated. Even where the national objectives of the nationalised industries were identified and understood, their corporate and commercial objectives required to be explicitly

stated. It was also necessary to appreciate that these objectives might not be achievable without impairing the corporate autonomy.

In quintessence, the chapter will examine if the absence of a clearly laid down norm or other criteria of economic efficiency had exposed the nationalised industries to the expediency of government intervention, a vitiated corporate autonomy and use of political processes to influence investment price, cost and return and production and decisions regarding future expansion programme.

A : SEARCH FOR A POLICY

The public enterprises in many of the developing nations in South East Asia have demonstrated the lack of a clear provision of norms or criteria for their economic efficiency¹. The nationalised industries in Bangladesh were no exceptions in this regard. The operational rules, regulations and procedures for them were not framed at an early date. Exposure of the industries to the expediency of external action, on the other hand, resulted in decisions regarding investment, return, profit, cost and price being subject to ad-hoc decisions. This along with complex social, political and economic issues made financial management of the nationalised industries extremely difficult. Apart from the absence of defined objectives of nationalisation in the statute as mentioned in the previous chapter², administrative, managerial, economic or financial principles under which the nationalised industries were to operate remained ill specified. One can indeed discern elements of indifference on the part of the legislative or the executive authorities

1 Basu, *Enterprise Policy*, *op. cit.*, Suwanabol, *op. cit.*

2 *Supra.*, pp. 192-9.

towards formulation and implementation of such needed rules and regulations. The social, economic and financial obligations of the nationalised industries were not discussed with depth and probity in the legislatures. Even the executive arms of the government which were instrumental in the creation of public corporations during the Pakistani administration³ demonstrated no initiative in the absence of a political directive and because of the erosion in their own morale⁴.

The lack of concern in the policy makers in Bangladesh towards formulating a guideline for the operation of the nationalised industries was, in many respects, in sharp contrast with the British experience in this regard and from which Bangladesh could possibly draw valuable lessons. Thus in the United Kingdom, discussions and debates surrounding the nationalised industries found expressions in the three major policy declarations⁵ of the government towards their operational principles as under:

- (i) In 1961 a system of financial targets for the British nationalised industries was set out describing the implications for pricing and investment policies. The objective was to find a reasonable

3 Birkhead writes: "Judging from the sources and content of official reports...the creation of corporations throughout...has been the work of administrators and the legislative branch has seemingly played no role at all". Birkhead, *op. cit.*, p. 120. Also see, Mushtaq Ahmed, *Government and Politics in Pakistan* (Karachi: Pakistan Publishing House, 1963), p. 101.

4 *Supra.*, Chapter IV, pp. 213-24.

5 Three major policy declarations are embodied in the following: White Paper, *The Financial and Economic Obligations of the Nationalised Industries* (1961, London: Her Majesty's Stationery Office) Cmnd. 1337; White Paper, *Nationalized Industries: a Review of Financial and Economic Objectives*, (1967, London: Her Majesty's Stationery Office) Cmnd. 3437; White Paper, *The Nationalized Industries*, (1978, London: Her Majesty's Stationery Office) Cmnd 7131. Also see, Leonard Tivey ed. *The Nationalized Industries Since 1960 A Book of Readings*, (London: George Allen & Unwin Ltd. 1973), pp. 65-85; Coombes, *op. cit.* pp. 31-74; M.R. Garner, "The White Paper on the Nationalized Industries", *Public Administration*, (Spring 1979), pp.7-20.

balance between the commercial and wider social obligations of the nationalised industries.

- (ii) Requirement of a more specific definition of efficiency and a minimum standard of financial performance led to the enunciation of a guideline in 1967 according to which the financial objectives were to be flexibly interpreted taking into account social obligations and national policies. It was provided that the government would assume responsibility for making special payments or for adjusting objectives if any industry was to operate against its commercial interests.
- (iii) In 1978 the basic philosophy was to leave the industries free to make their day to day operational decisions while the government must lay down the broad economic and financial framework within which they would want the industries to operate. The essential elements in such a framework were the targets for the financial profits, the principles governing investment appraisal and pricing policy and the form of financing.

In Bangladesh the policy makers were not seemingly concerned with the above issues and no clear framework was given under which the nationalised industries and their corporations were to operate and formulate policies for the industries under their charge. The nationalisation statute did not state if the nationalised industries were to operate on commercial or some other principles or to seek a reasonable balance among the various conflicting obligations⁶. Absence of a firm declaration about the objectives and the obligations of the nationalised

6 In contrast, for example, public enterprises statutes in Greece, envisaged that the public enterprises would function in the public interest but according to the "rules of private economy". See Pella Lenoudia, "Public Enterprise in Greece", *Public Finance*, Vol 18 (1963), pp. 287-306.

industries did not necessarily invest them with "excessive freedom". Instead the lack of a definite guideline resulted in the government eventually deciding all matters.

In the nationalisation statute itself there were six articles pertaining to the financial operation of the nationalised industries out of the total twenty six articles governing various aspects of the nationalised industries and nationalisation. The six articles were related to aspects of control, submission of annual budget statements, annual statement of accounts and audit, etc. Only articles 18 and 20 referred to operational aspects of financing. Article 18 provided for an authorised share capital of Taka 10 million for each corporation to be subscribed entirely by the government and an initial share capital of half a million Taka fully paid-up and subscribed by the government. Article 20 conferred powers upon the corporations to spend such sums as they would think fit within the limits of their annual budgets approved by the government. Other than these aspects the nationalisation statute did not contain specific guidelines on matters such as investment, pricing or profits. Nor did it seek to define the financial, social and economic obligations of the nationalised industries.

The plan documents and industrial policy statements of the government later made some attempts to identify various objectives of the nationalised industries rather in oblique ways. The FFYP mentioned concepts such as "production targets" or "other defined objectives"⁷. According to Alamgir⁸ while this indicated an appreciation of the need for a performance criterion, it still fell short of a clear thinking on the subject by the planners. The FFYP mentioned however its expectation

7 FFYP, *op. cit.* p. 251.

8 Alamgir, *op. cit.* p. 708.

that the broadened industrial base of the economy would generate substantial surplus and create additional employment and income⁹. The Annual Development Programme 1972-73 identified objectives such as, to reach the level of production of pre-Liberation level and to rehabilitate all enterprises which suffered from damages and dislocation due to the Liberation War¹⁰. By mid-1974 planners were sensitive to the need for reforms in the field of financial management of the nationalised industries and formulated detailed policy measures. The anomalies in the price policy in a mixed economy was noted. It was advocated that market conditions should determine the prices of the products and that any departure from the market price and price felt socially desirable by the government should be covered by budgetary subsidies¹¹. The rate of increase of surplus from the nationalised sector was set conservatively for the early years of the FFYP but was expected to accelerate as operating efficiency started yielding results.¹²

The annual budgets of the government assumed that the nationalised industries would be able to generate a surplus. The Budget speeches of the Finance Ministers contained indirect references about the government's desire to see the industries generate surplus and earn profits¹³.

9 FFYP, *op. cit.*, p. 208.

10 TYP, *op. cit.*, p. 1 noted that a part of the Annual Plan for 1972-73 was directed more towards economic recovery.

11 Government of Bangladesh Planning Commission, *Economic Development in 1972-73 and Annual Plan for 1974-75*, (Dacca: Government Press, 1974) p. 40.

12 FFYP, *op. cit.*

13 See for example Budget Speeches of the Finance Minister for the financial years 1974-75 and 1975-76. Government of Bangladesh, Ministry of Finance, *Annual Budget for 1974-75 Budget Speech of Mr. Tajuddin Ahmed Minister for Finance* (Dacca: 19 June, 1974) p.12. The surplus from the

(Continued over)

The first industrial policy statement of the government¹⁴ indicated that the purpose of establishing the sector corporations in the nationalised industries was to achieve efficient and professional management. This implied an appreciation of the need for a commercially oriented philosophy. A foreign consultant was appointed to review existing financial procedures and suggest modern "business methods". The investment policies, however, appeared to be primarily concerned with assuring the private sector of government support¹⁵.

The government seemed to have overlooked the need for filling various policy vacuums arising out of several blanks in the statute. Contemporary policy speeches of the ruling elite failed to provide a clue about the thinking of the government. Likewise the parliamentary proceedings were singularly lacking in appreciation among the legislators about the need for an explicit statement on the operational principles for the nationalised industries. In the absence of any clear statutory guideline, political directive or administrative order it seems the Planning Commission initially bore the responsibility for delineating the economic and financial objectives of the nationalised industries. Later the Guidelines issued by the Cabinet Division emphasised the "commercial considerations" for operating the enterprises and the need "to earn additional revenue for the government"¹⁶. During the later

13 (Continued) nationalised industries was expected to be Taka 90 million. Also, Government of Bangladesh Ministry of Finance, *Annual Budget 1975-76 Budget Speech Dr. Azizur Rahman Mallik Finance Minister* (Dacca: 23 June 1975) (in Bengali), p. 31. Revenue receipts from the nationalised sector was estimated to be Taka 213 million.

14 *Industrial Policy 1972-73 op. cit.*

15 *Supra.*, Chapter III, pp. 134-6, 146-51.

16 Cabinet, *Guidelines*, *op. cit.*

period of the FFYP the guiding principles appeared to be rationalisation and corporations were required to "push up sales and repay outstanding bank loans and operate on commercial basis"¹⁷. There were however, "uncertainties". The country as the planners noted was still in a "real transition"¹⁸. In the absence of national convictions on import- and issues definite guidance was not available¹⁹ and the nationalised industries wavered uncertainly in a volatile political environment.

B : FINANCIAL OPERATION

An Inherited Liability

A number of the nationalised enterprises inherited heavy debts run up by their former owners immediately prior to Liberation²⁰. With the intensification of the Liberation War in 1971 many of the West Pakistani owners began to pull out of Bangladesh. They would not, of course, carry away the plant and machinery but they could transfer cash resources to West Pakistan to build up financial assets there²¹. Inventories were depleted. There were very few imports or replacements during the period of the Liberation War. As a result,

17 TYP, *op. cit.*, p. 24.

18 *Ibid.*, p. 23.

19 *Ibid.*

20 Sobhan, *Nationalisation, op. cit.*, pp. 185-6. A parallel can be drawn with the British experience of nationalisation. The capital requirements for the recovery of the British coal industries, for modernisation of the British Railway and to overcome technical and economic disadvantages in the small scale and localised organisation of the gas industry made nationalisation in Britain almost inevitable. See for example G.L. Reid, Kevin Allen and D.J. Harris, *The Nationalized Fuel Industries*, (London: Heinemann Educational Books, 1973), pp. 13 & 93; A.W.J. Thompson and L.C. Hunter, *The Nationalized Transport Industries*, (London: Heinemann Educational Books, 1973), pp. 125-30.

21 Faaland and Parkinson, *op. cit.*, p. 33.

at the time of Liberation inventories of raw materials and spares were at an all time low. The West Pakistani owners also extracted overdrafts from their banks working in Bangladesh and transferred the accounts to West Pakistan. Outstanding loans to the commercial banks alone amounted to Taka 1079 million of which Taka 153 million was not backed by stock and stores.²²

Industries at Liberation were faced with critical liquidity problems. The jute industries inherited huge liabilities towards banks and financial institutions. The mills were unable to meet all pre-Liberation liabilities. The liquidity gap of the jute industry as on June 30, 1973 was estimated at Taka 1063 million²³. The cumulative annual operating loss of jute industry since 1971-72 stood at Taka 550 million on June 30, 1973²⁴. Interest on jute mills borrowings in the pre-Liberation years was about Taka 50 million²⁵. Similarly, extent of damages to buildings, machinery and transport system of the sugar industry was estimated at Taka 27 million at the time of Liberation²⁶. The total accumulated loss of the sugar mills as on the date of nationalisation was Taka 98 million²⁷ and the deficit in the working capital was to the extent of Taka 107 million²⁸.

There were debates, delays and hesitation by the new Awami League Government on the policy to adopt on the inherited heavy financial

22 *Plan 1974-75, op. cit.*, p. 106.

23 *Ibid.*

24 S.I. Khan, "Problems Relating to Finance to Jute Industry" in *Problems of the Jute Sector*, (Dacca: Bangladesh Jute Mills Corporation, 1978) pp. 56-62.

25 *Ibid.* The amount of interest grew to Taka 310 million in 1978.

26 Bangladesh Sugar Mills Corporation, *Annual Report 1972-73*, (Dacca: MIS Department, not dated) p. 1.

27 *Ibid.*, p. 2.

28 *Ibid.*

liabilities of most of the enterprises. It was, however, decided that the nationalised sector should not carry the burden of these debts during the initial period of its operations. All liabilities on capital account were to be converted into long term debentures with five years' moratorium on payment of interest and capital²⁹.

No precise estimate of working capital requirement of nationalised industries was available at the time of nationalisation. In November, 1973, the government appointed a committee for the purpose of examining the liquidity gap of the sector corporations. They estimated the total liquidity gap as on June 30, 1973 to be Taka 2229 million³⁰. The actual gross working capital requirement on an assumed capacity utilisation at various levels for various different units was calculated at Taka 3265 million³¹. The task of calculating the liquidity gap was made difficult initially as the total financial position, the profit and loss accounts and balance sheets of the nationalised enterprises were not available. However, in view of the urgency, the Planning Commission recommended a further moratorium for five years for capital repayment and accumulated interest. This referred to all pre-Liberation loans given to the enterprises by financial institutions, including commercial banks, for all industries other than jute. In the case of the jute industry it was decided that all outstanding loans taken from the various financial institutions for long term industrial credits as of June 30, 1973, should be converted into long term debentures

29 *Plan 1974-75, op. cit.*, p. 40.

30 *Ibid.*, pp. 106-107; the liquidity gap estimated for the nationalised industries other than jute sector as on 30 June, 1973 was Taka 1155 million.

31 Muzaffer Ahmed, "Financing of Public Sector Enterprises: Some Reflections on its Procedures, Problems and Administration in Bangladesh", *The Journal of Management Business and Economics*, Vol.2, 1976. (pp.69-94).

Pre-Liberation liabilities of income tax, excise tax and sales tax in respect of taken over units were to be written off, as would be all subsidy claims by enterprises.

The Nationalisation Order provided for payment of compensation in respect of the shares of the nationalised enterprises which subsequently vested in the government. Initially, the Constitution provided that payment for compensation for the acquisition, nationalisation or requisition lay at the discretion of the government³² and the amount was to be determined by the government and was not to exceed paid-up value of such shares³³. Later the Constitution was amended to provide for payment of compensation for all compulsory acquisition, nationalisation or requisition³⁴. The government approved guidelines in late 1975 for evaluation of compensation for nationalised industries. Accordingly, the foreign shareholders of nationalised industries were to be paid 25 per cent of compensation in 1975-76, 30 per cent in 1976-77 and the remaining 50 per cent in 1977-78³⁵. The Bengali shareholders of nationalised enterprises were to be paid compensation in non-negotiable savings certificates though provision was made for small investors to pay compensation in cash in one instalment³⁶. The total amount of compensation payable was estimated at Taka 217 million of which Taka 30 million was payable to foreign shareholders and Taka 187 million was

32 *Constitution, op. cit.*, Article 42 (2).

33 *Industrial Nationalisation Order, op. cit.*, Article 9.

34 Government of Bangladesh, Ministry of Law, "The Proclamations Amendment Order, 1977 Proclamations Order No. 1 of 1977", *The Bangladesh Gazette Extraordinary*, 23 April, 1977, Article 7.

35 Government of Bangladesh Press Note, 5 December, 1975. Ministry of Industries, Nationalised Industries Division, Compensation Wing.

36 *Ibid.*

payable to Bengali shareholders³⁷. The huge amount of compensation which the government was committed to pay created an additional liability for the nationalised industries.

Many of the crippled enterprises could not be made operative with the liabilities of the past³⁸. Failure of the government to define its policy toward the question of inherited liability helped to compound the liquidity problem of the nationalised industries. This led to the question of liquidity gap. If nationalised enterprises were found to be uneconomic in changed circumstances, it would be better to close them down and if on the other hand these enterprises were to run and operate this gap had to be bridged.

Sources of Finance

Nationalised Industries, like the private sector, were in need of finance for the acquisition of fixed productive assets along with its fixed or permanent capital. The industries also required working capital with which the expenses of current account, such as raw materials, debt and administrative expenses including wages and salaries of employees could be met. The main sources of finance included (i) equity share or creditor securities (ii) retained earnings or plough back profits in the form of depreciation reserves, development reserves, special resources etc. (iii) commercial banks (iv) financial institutions

37 *Ibid.* By May, 1975 evaluation of net worth of 256 companies under various sector corporations out of 283 required to be evaluated was completed for the purpose of compensation. Companies belonging to jute, textile, sugar, chemicals, shipbuilding, food and allied products and steel sector were evaluated.

38 Evaluation of net worth revealed that 12 enterprises in jute sector 26 in textile and 3 in sugar had excess of liabilities over assets. Source: Ministry of Industries, Nationalised Industries Wing Compensation Branch.

specialising in medium and long term finance (v) investing public (vi) international financial institutions such as IBRD, IFC, IDA, etc. (vii) foreign capital (viii) insurance corporation and (ix) other institutional investors like the investment trust³⁹. Whether or not the source of investment is important and whether government investments are inherently superior nor inferior to private investments or not, both have the same alternative sources to choose from and are interested in maximising the same goals⁴⁰. Even then, the nature of industries, the size of the unit, the risks involved and the cost of raising capital could be as important a consideration in respect of the nationalised sector as the private in determining the proportions of the various sources of finance. In Bangladesh, this was complicated by the fact that the government was the principal investor and source of funds for financing the nationalised industries. A low per capita income, low ratio of savings to the national income and a smaller market sector all combined to make the public sector's share in industrial productive investment overwhelmingly large. It is the public sector which has to furnish the social overhead capital in Bangladesh.

The government was, therefore, the sole shareholder in all nationalised enterprises placed under the sector corporations⁴¹.

39 Following B.G. Hebbalkar, "Finance for Industry", *The Indian Journal of Public Administration*, Vol. 20 (July-September, 1974) pp. 623-37; V.V. Ramanadham, *The Finances of Public Enterprises*, (Bombay: Asia Publishing House, 1963), pp. 107-110.

40 Oscar T. Brookins and Gustav Schachter, "The Role of the Public Sector in Industrial Investment in South East Europe", *International de Science Economische Commerciale*, Vol. 17, (1970) pp. 1190-1207.

41 *Industrial Nationalisation Order*, op. cit., Article 4.

As has been earlier noted the authorised, initial and subscribed capital of the sector corporations was statutorily fixed. The authorised, initial and subscribed capital was to be provided by the government. In addition, the capital of the sector corporations was derived from the following sources⁴²:

- (i) Grants by the government;
- (ii) Loans obtained from the government;
- (iii) Sales proceeds of the bond issued under the authority of the government;
- (iv) Loan and foreign aid obtained by the corporations with the special and general sanction of the government;
- (v) All fees and levies, charges and rates received by the corporations;
- (vi) Sales proceeds of both raw materials, finished products and by-products;
- (vii) Revolving funds placed at the disposal of the corporations by the government for survey, feasibility study etc. of the schemes;
- (viii) All other sums received by the corporations.

The predominance of the government as the prime financier of the nationalised industries is no unique example for Bangladesh. Studies on financial performance of government owned corporations in less developed countries bear out the fact that the government provides the major part of their financial needs⁴³. This dominance has advantages too: it helps the government to exert financial regulations on capital expenditure programme and long term borrowings of the sector corporations. It also confers on the corporations the advantage of cheap capital,

42 Shamsul Islam, *Public Corporations in Bangladesh*, (Dacca: Local Government Institute, 1975), p. 53.

43 See Andrew H. Gant II and Giuseppe Dutto, "Financial Performance of Government Owned Corporations in Less Developed Countries", *International Monetary Funds Staff Papers*, Vol. 15 (1968) pp. 102-140. Gant and Dutto made an exhaustive study collecting data regarding public corporations in the following countries: Argentina, Bolivia, Brazil, Ceylon, Chile, Columbia, Dahomey, India, Liberia, Malagasy, Malaysia, Mauritius, Malawi, Mexico, Nigeria, Pakistan, Peru, Rhodesia, Sudan, Uganda, Thailand and Zambia and also France, Italy and the United Kingdom.

government supported without having to face the test of the capital market⁴⁴.

The capital structure of the nationalised industries, however, remained weak because of their dependence on the advances made by the exchequer as the main source of capital. All the sector corporations received considerable amounts of funds at the time of their establishment and in subsequent periods. No obligation was put upon the corporations to pay interest and amortisation to the government for capital granted. Moreover, while the sector corporations were permitted to borrow funds from the financial institutions⁴⁵ and capital market they were hardly able to realise profits that could be used in order to finance new investments. The sector corporations as a result could not develop autonomously and independently of the State and their investment programme became rigid.

Nationalised industries had two alternatives to procure capital from non-governmental sources. The sector corporations could, with approval of government, borrow funds as might be required by them to discharge their functions. The corporations were empowered under certain conditions to raise loan capital in the open market. The loan funds were almost invariably to carry a governmental guarantee. The only difference from the government directly providing finance was that the enterprises enjoyed some flexibility. The other alternative was to acquire equity capital, which the nationalised industries could not do in Bangladesh. To do so would have meant a deviation from the principles of State ownership where the State was the sole owner of the shares of the enterprises. Even if the device of equity

44 Ramanadham, *Finances*, *op. cit.* pp. 107-8.

45 *Industrial Nationalisation Order*, *op. cit.*, Article 20 (2).

participation by private investors was provided for it could be of limited practical value at least during the period immediately after Liberation. There would have been a very limited supply of private capital and the initial losses of the nationalised enterprises and the turbulent industrial atmosphere⁴⁶ in general were not likely to induce the private investors to come forward⁴⁷.

The Planning Commission pointed out the anomalies and problems in the traditional pattern of financing public sector industries and called for the evolution of new financial procedures⁴⁸. The problems enumerated in respect of financing of industries were as follows:

- (i) Pattern of financing a public sector project, i.e. debt-equity problem;
- (ii) Mobilisation of funds by the financing institutions;
- (iii) Working capital requirements of public sector industries;
- (iv) Past debt liabilities of the abandoned enterprises;
- (v) Determination of rate of return on funds provided by the government or the public sector projects;
- (vi) Demarcation of project financing through central plans and financial institutions.

The Planning Commission suggested policy measures in this area the main principles underlying which were⁴⁹:

46 Nuimuddin Chowdhury, "Industrial Conflict in Bangladesh 1947-75: A Preliminary Analysis", *The Bangladesh Development Studies*, Vol. 2 (April, 1977), pp. 211-226.

47 A government estimate firmed up in 1975 identified shareholders as Bengalis and Pakistanis in jute, textile and sugar sectors as follows:

Government in BIDC	Taka 104 million
Insurance and Financial Institutions	Taka 58 million
Bangladeshis	Taka 141 million
Pakistanis	Taka 90 million
Foreigners other than Pakistanis	Taka 30 million
Total	Taka 423 million

Government of Bangladesh, Ministry of Industries, Nationalised Industries Wing.

48 *Plan 1974-75, op. cit.*, pp. 104-105.

49 Based on, *ibid.* pp. 40-41 & 104-105; *FFYP, op. cit.*, pp. 259-261 and Ministry of Industries, Nationalised Industries Wing. Corporations submitted proposals to the government for conversion of their loans into share capital and obtained the same on several occasions.

- (i) The debt equity burden should be so distributed as to avoid burdening the cost structure of the enterprises;
- (ii) The debt equity structure of the enterprises should be determined by converting Taka component of the total investment into equity and foreign exchange component in debt. Savings should be promoted in foreign exchange used in the project;
- (iii) All corporations should organise units into companies;
- (iv) For existing companies existing debt equity structure was to continue until changed due to expansion. If there were existing companies whose debt equity structure was economically unviable these were to be submitted for examination;
- (v) Proprietary business with no loan liability was to have 100 per cent equity;
- (vi) Units not already formed into a company equity was to be equivalent to local currency component and loan should be equivalent to the foreign currency component unless it was demonstrated that such a capital structure made the plant financially unviable;
- (vii) Units should operate in such a manner as to repay interest on loan, repay loan capital instalments and generate on average a minimum 7½ per cent return on the equity in the form of dividend;
- (viii) Each corporation was to work out the capital structure of such enterprise under its control on the above guidelines.

However, as late as in September, 1978 the various issues involved could not be resolved and the sector corporations were still busy undertaking exercises to define an appropriate debt-equity and capital structure for the enterprises administered by them⁵⁰.

As a result of all these factors the nationalised industries were unable to contribute to total savings and capital formation in the country. They were not able to develop a more independent view of financing investments, whether to acquire more business like flexibility and initiative or to help accelerate the pace of industrial growth in the economy. Moreover, the government required enormous funds to finance the achievement of the high targets of the First Plan. While foreign aid provided 75 per cent of capital for the First Plan⁵¹ in the

50 During the field study in September-December, 1978 it was found that BCIC, BSFIC and BSEC had undertaken the needed exercise under the directive of the Ministry of Industries.

51 *Review 1978, op. cit.* p. 22.

public sector the government could not indefinitely look upon these as the prime sources. It was imperative that the budgetary surplus particularly the revenues from the nationalised industries could be increasingly relied upon. The loanable funds were needed to be raised from the domestic or foreign capital markets as well. But unfortunately, like many other less developed countries the nationalised industries in Bangladesh placed a financial burden on the government rather than serving as a method of collecting resources for their own financial support⁵².

Raising of Loans

The government had, therefore, to reorient its approach to the nationalised industries in relation to the suitability of their capital structure. The initiation, operation and expansion aspects of nationalised industries needed to be linked together by a self-evolving capital structure - a result of their savings⁵³. In other words, it was necessary to strengthen the position of the sector corporations by associating them with suitable financial institutions capable of giving necessary assistance. Such financial institutions would encourage productive activities and facilitate the circulation of assets by a credit procedure in conformity with the needs of the economy. It would enable the nationalised industries to reduce their demands for government funds and to get used to relying on their own independent means of acquiring capital.

52 Gant and Dutto, *Financial Performances*, *op. cit.*

53 R.K. Jain, "Capital Formation in State Enterprises in India", *The Indian Journal of Public Administration*, Vol. 7 (January-March, 1961), pp. 57-91.

The absence of an organised capital market⁵⁴ made this possibility extremely unlikely. The relatively small volume of domestic savings equally presented serious difficulties for the floating of loans. However the accumulation of private savings in banks and other financial institutions helped the nationalised industries to acquire funds through issue of some loans in the domestic capital market. The FFYP projected an amount of Taka 1570 million⁵⁵ as possible borrowing from banking system to finance the public sector investments. This was exclusive of Taka 3000 million short term credits⁵⁶ for the nationalised enterprises to finance working capital and similar requirements not included in First Plan outlay. However, the World Bank considered that the scope for financing public sector plan expenditures through borrowing from the banking system (deficit financing) was limited⁵⁷. Nevertheless, the Planning Commission took cognizance of the problems of mobilisation of funds for financing industries by the financial institutions and the need for reorganisation of financial institutions for the purpose⁵⁸. It also felt that the financial institutions should be given a more important role for financing the nationalised sector. There is however no reference to the need to activate the capital market or a stock exchange as an agency for mobilising savings and financial investments either in the industrial investment policy of 1972-73 or in the new investment policy of

54 A direct access to domestic capital market helps to develop more flexible means of acquiring long term funds for public enterprises. See Lenoudia, *op. cit.*

55 FFYP, *op. cit.*, p. 49.

56 *Ibid.*, p. 240. This includes nationalised banks and insurance companies.

57 IBRD, *Rural Economy, op. cit.*, p. 256.

58 *Plan 1974-75, op. cit.*, p. 104.

1974. It is no wonder that the stock exchange remained a very weak vehicle for mobilising resources at the end of the First Plan.

The Planning Commission recommended some specific roles for the domestic banks in financing nationalised industries⁵⁹. Policy measures regarding financing of nationalised industries envisaged were as follows:

- (i) Moratorium to capital repayment and accumulated interest will be granted on all pre-Liberation loans given to the enterprises by the financial institutions including commercial banks with certain qualifying provisos;
- (ii) Special treatment could be accorded to a sector corporation regarding its liquidity problem if they were unable to meet the liquidity gap through its own resources or through banking arrangements.⁶⁰

Although the banking system as a whole failed to mobilise the savings of the community particularly in the early years of nationalisation⁶¹ the nationalised banks and specialised financial institutions remained the usual source of credit for the nationalised industries. Out of total commercial bank advances the share of the manufacturing sector was 35 per cent on June 30, 1973. It was 33 per cent on the corresponding date in 1974, 52 per cent in 1975, 45 per cent in 1976, 43 per cent in 1977 and 43 per cent in 1978⁶². The bulk of the bank

59 *Ibid.*, p. 40.

60 *Ibid.*, p. 108.

61 Because of large scale corruption, wholesale smuggling, hoarding, blackmarketing, permit-mongering, extra-departmental influences and political manipulations a huge amount of black money generated outside the banking system. See Government of Bangladesh, Ministry of Finance, *Resume of the Activities of the Financial Institutions* (Dacca: Government Press, 1976) p. 9. Lack of institutionalised savings coupled with above factors brought about mounting pressures on the price line and frustrated all efforts in restoring financial disciplines. Simultaneously the government policy regarding private sector industries tended to discourage private investment during the early period and discouraged savings through institutional channels.

62 Ministry of Finance, *Resume of the Financial Institutions 1979-80* (Dacca: Government Press, June 1980), pp. 20-21.

credit in the manufacturing activities went to the nationalised sector. The following table will illustrate the magnitude of the bank credit received by the nationalised industries as compared to other sectors in the national economy:

TABLE 10
Distribution of Bank Credit by Sectors⁶³

<u>Sector</u>	<u>Percentage</u>			
	Position as on: <u>31-12-74</u>	<u>30-6-75</u>	<u>30-6-76</u>	<u>30-6-77</u>
I Nationalised Industries	39.5	46.2	50.0	11.4
II Public Sector other than nationalised industries	24.2	37.0	12.0	32.1
III Private Sector	36.3	16.8	37.8	56.5
Total	100.0	100.0	100.0	100.0

The above table demonstrates the resurgence of the private sector in the economy since mid-1975. Share of the bank credit to the nationalised industries declined to only 11.4 per cent of the total bank credit in 1977 from 39.5 per cent in 1974. On the contrary the private sector came to account for 56.5 per cent of the bank credit in 1977 against its previous 36.3 per cent in 1974.

Development Plan Allocations

Requirement of investment fund was direct function of investment plan for the nationalised industries which were largely reflected in the Five Year Plan and the corresponding Annual Plans. Planning activities were guided by the Five Year Plan and the Annual Plans. The Five Year Plan defined the broad objectives of development and strategies; the Annual Development Programmes were drawn within the framework

63 Figures in the table are based on *Yearbook 1979, op. cit.* p. 316, Table 7.20.

of the short term operational plan known as the Annual Plan. Thus, Annual Plan provided the necessary link between the Five Year Plan and the current economic situation obtaining in the economy. The funds allocated for the nationalised industries as in other sectors were released through the budgetary process of the Annual Development Programmes (ADP).

Financial allocation under the FFYP for the nationalised industries was Taka 7239 million. This amount was about 96 per cent of the First Plan allocation for the industrial development through the public sector. The following table shows the FFYP allocations for industry, according to sectors.

TABLE 11

The FFYP Allocations for Industrial Development⁶⁴

<u>Sector</u>	<u>Total Amount*</u>	<u>Percentage</u>
Nationalised Industries	7239	81
Public Sector other than nationalised	311	3
Private Sector	1415	16
	<u>8965</u>	<u>100</u>

* in million Taka

Actual development expenditure in the public industrial sector during the period between 1973-74 and 1977-78 was Taka 5672 million. The comparative phasing of allocation and actual estimated expenditure is depicted below:

64 FFYP, *op. cit.*, p. 212.

TABLE 12

Annual Phasing of Allocation and Expenditure in
Public Industrial Sector During the FFYP Period ⁶⁵

(in million Taka)

<u>Item</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>Total</u>
Allocation	790	1436	1738	1792	1794	7550
Expenditure	525	650	1166	1430	1901	5672

Of the amount allocated actual amount utilised was estimated to be Taka 3150 million. Break-up of allocation and utilisation for each of the corporations is given below.

TABLE 13

Financial Allocation and Utilisation of Development Funds
by the Nationalised Industries During the FFYP Period ⁶⁶

(in million Taka at current prices)

<u>Corporation</u>	<u>Allocation</u>	<u>Utilisation</u>
BJMC	480	370
BTMC	1090	800
BSFIC	230	160
BCIC	1070	340
BSEC	3080	150
BFIDC	110	460
PB	815	694
BPC	123	136
BMEDC	250	40
Total	7248	3150

Compared to shortfall in total public sector development outlay estimated at 50 per cent, in industry implementation was only to the order of 36 per cent⁶⁷. For nationalised industries it came to a little more than 43 per cent. The total expenditure could be financed by

⁶⁵ Review 1978, *op. cit.*, p. 20, Table 7.

⁶⁶ TYP, *op. cit.*, p. 152 and pp. 194-5.

⁶⁷ Review 1978, *op. cit.*, p. 21.

domestic resources only to the extent of 24 per cent of the fund requirements⁶⁸ which caused bottlenecks, uncertainties and delays. Apart from those problems, the nationalised industries suffered from cumbersome governmental procedures for release of funds on which they almost entirely depended. In the multiple scrutiny involved in procedures for release of development funds several ministries were associated. The ministry administering the corporation and the Planning Commission examined the physical programme of expenditure for the year submitted by the corporation. Once cleared it went to the External Resources Division and the Ministry of Finance for release of foreign exchange and Taka finance. Every agency tended to initiate its own scrutiny in the process which was thus often duplicated. In certain cases even after clearance from the Ministry of Finance and the External Resources Division the ministry concerned in charge of the corporation would again carry out its own examinations. The FFYP sought to streamline release procedures and recommended a modification⁶⁹. Essentially however for the nationalised industries, without their own financial base, it had to be a dependency relationship with the government which stifled their operational flexibility. The need for generation of surplus or return on investment as a simple technique to aid the investment decision was therefore acute.

Generation of Surplus

The sharp increase in revenue expenditure of the government reduced the surplus for investment in development. Revenue surplus in national budgets projected at Taka 11,620 million during the FFYP

68 *Ibid.*, p.

69 *FFYP, op. cit.*, pp. 260-261.

reached the figure of only Taka 4,720 million - about 45 per cent of the estimated goal⁷⁰. This revenue shortfall was attributed to, among other reasons, low level of income generated by the nationalised industries which fell far short of expectation. Some of the nationalised enterprises instead incurred heavy losses and survived on subsidies as will be seen later⁷¹.

The aspects of return on investment, surplus or profit were discussed by those concerned with the nationalised industries. It was argued that these undertakings should operate on no profit no loss basis because they were established for the public purposes and welfare. On the other hand, it was also stated that the concept of return of investment should be as applicable in the public sector as in the private sector. It was held that the investment in the public sector was mostly from the government. The usefulness of such investments is best evaluated in terms of money. Assessment of future return and profitability would help justifying the current investment decisions. The repayment of the capital in the long run and, the reduction of the burden on the government would be facilitated through the generation of surplus. The nationalised enterprises therefore, should run on a profit making basis not only in the sense that it should yield an economic price but it must also fetch resources for the community in order to finance a part of the investment.

The controversy in Bangladesh was made more complex as the nationalisation order did not place any obligation on the corporations or enterprises to generate a profit or to contribute such profits to

70 *TYP, op. cit.*, p. 14.

71 *Infra.*, Table 14.

the government exchequer. Nor the corporations were empowered under the provisions of Nationalisation Order to appropriate and draw any profit or surplus from the enterprises, either for their own use or for the purpose of depositing it in the government exchequer. Early in 1973 the Planning Commission suggested government levy on public sector enterprises and proposed that

all public sector projects whether existing or new shall pay to Government a minimum fixed return of 7½ per cent on the original value of their investments. This surplus after deducting the minimum shall be distributed by a formula to be determined by the Government.⁷²

Discussions about rate of return on investment in the Bangladesh nationalised industries did not however, culminate in a clear policy declaration by the government. This was in sharp contrast with the British experience where the awareness of the government about the need for a guideline for operation of the nationalised industries and its determination to resolve the problem were amply reflected in the publication of a succession of White Papers⁷³. The government in

72 *Plan 1974-75, op. cit.*, p. 105.

73 *Supra.*, fn. 3. p.229 . In Britain, at the time of the creation of the nationalised industries it was stipulated that they should "pay their way". This was taken to mean that their revenues, on average, over a number of years should cover their costs. Being ill defined, unspecific and vague this guideline came into conflict with other objectives of the nationalised industries. This resulted in setting a target for an overall return to be achieved by the industries (1961 White Paper). The 1967 White Paper viewed the rate of return largely as a measure of performance and to "reflect different statutory and social obligations, conditions of demand, domestic costs and other factors peculiar to the individual undertaking". (1967 White Paper p. 13). The 1978 White Paper viewed the financial targets set generally for 3-5 years in the form of percentage return as the central elements in the guidelines. Accordingly, the level of financial target generally to take into account the "required rate of return" of 5 per cent in real terms. This rate was set so as to reflect the opportunity cost of capital. The White Paper highlighted the need for an adequate level of profits in the nationalised industries in their own interests and the economy as a whole.

(Continued over)

Bangladesh failed to demonstrate such awareness and hesitated as if to assume responsibility and to discharge it afterwards by announcing its commitment to a particular framework of operation.

The lack of a clear corporate and commercial objective for the nationalised enterprises of Bangladesh was generally in line with other South East Asian countries⁷⁴ like Malaysia, Thailand, Srilanka and Indonesia. The Planning Commission's proposal of a minimum fixed return of 7½ per cent resembled the Indian pattern where public enterprises were expected to generate a return of about 8 per cent on the capital invested⁷⁵. The surpluses generated by public enterprises are ploughed back for new investment in public sector within the plan framework. In Japan however public enterprises were expected to be self financing and self supporting⁷⁶

The proposal of the Planning Commission suffered from certain ambiguity. For example,

- (i) The term "original value of investments" required a definition. It was not stated whether the original value of investment would be original cost of the scheme approved by the government and fund received thereof including both local and foreign currency or it would mean such ADP fund as would be received by an enterprise from government through ADP.
- (ii) Whether the payment of fixed return would be paid on such portion of government fund as would be converted into equity and interest payment at the respective rate on the balance of government loan;

73 (Continued) The choice of 5 per cent as the required rate of return was based on among other things the returns achieved by private companies. Undoubtedly these guidelines did not immediately resolve the issues once for all. But they did help to improve performance in the British nationalised industries. See for example Richard Pryke, *Public Enterprise in Practice the British Experience of Nationalization Over Two Decades*, (London: MacGibbon & Kee, 1971).

74 Basu, *Enterprise Policy*, op. cit., pp. 38-43.

75 *Ibid.*

76 Yoshiro Nishikawa, "Some Basic Problems in Accounting System for Public Enterprise with Special Emphasis Upon the Concept of Capital and Profit", *Hitsobishi Journal of Commerce and Management*, Vol. 6 No. 1 (May, 1971), pp. 1-13.

- (iii) Whether payment of 7½ per cent fixed return would be treated as a charge and enable the corporations to debit this as expenditure to the revenue account for getting relief from income tax.⁷⁷

The suggestions of the Planning Commission remained unimplemented.

It was argued that the corporation should earn profit and contribute to the government exchequer. The rate of return should be decided every year on the basis of the volume of profit earned by the enterprises, their liquidity position, provision for corporate tax, payment of long term loans, past losses, general and specific reserves for meeting future contingencies, working capital, capital expenditure for replacement of machinery etc.⁷⁸ The share capital and not total investment should be the basis for dividend because the equity of the investments covers both share capital as well as loan capital⁷⁹. The loan capital carried interest but the share capital did not involve such charge. It was further argued that the rate of dividend could not be fixed and would vary with surplus of enterprises and the dividend should be paid after the profit (as normally defined in the Companies Act) was determined at the end of each financial year⁸⁰.

Administering a Profit Policy

An examination of profitability in the nationalised industries presented several difficulties. Firstly, the data base was inadequate and weak. The figures were ploughed back amounts and current profits as shown in the published account were not necessarily accurate in some

77 Based on interviews with Directors of Finance in BJMC, BCIC, BSEC, PB, BTMC and BFIDC during September–November, 1978.

78 *Ibid.*

79 *Ibid.*

80 *Ibid.*

cases. The profit figures were not always net in nature. They were often not inclusive of provision for income tax. Necessary revenue charges were not debited in every case. Secondly, the corporations were set up at the time of nationalisation but many of the enterprises were established long before. Their capital figures represented historical values. The rates of return calculated in terms of such figures were not conceptually homogeneous with those computed on more recent investment. It was difficult to make out a comparative picture from the financial statements of various corporations. The figures cited by different agencies were not always consistent and at times irreconcilable. Thirdly, administrative facilities required to pursue a profit policy by the nationalised industries seemed to be lacking. There was no unequivocal declaration about the pursuit of a profit policy in the Nationalisation Order or later on by the executive agencies. The structure of nationalised industries was highly heterogeneous, in terms of the profit motive. Some industries like jute or fertiliser were subsidised for operation, some were expected to make high profits and some reasonable profits. The nationalised industries were organised in an extensive manner. They covered industries of various categories - basic, secondary and tertiary. They were organised for some time both as department and as autonomous institution. Furthermore "the full range of problems and relativities of interests raised by the policy of profits" in a vast nationalised industries sector entailed a neutralisation of decision at the level of administration devised for implementing the policy⁸¹. As Ramanadham aptly puts it:

81 Following V.V. Ramanadham, *The Structure of Public Enterprise in India*, (London: Asia Publishing House, 1961), p. 114.

The total target of resources expected... has to be apportioned among the different enterprises, interindustry potentialities of profit have to be adjudged, shifts of interindustry transfers of profits are to be assessed, the choice between the tax method and the profit method needs a thorough examination, the claims of workers for a share in profits warrant a judicious and courageous probe, and undue regional pressures are to be resisted.⁸²

Moreover, profit as an overall economic policy may be poorly compatible with administrative inflexibilities at the management level of the nationalised industries. Since some of the directors of the corporation boards were officials seconded from the regular government services it became difficult to take suitable action against them if their personal responsibility for the poor financial performance was established. At best, a heavily criticised officer could be reverted to his former departmental position.

Formulation of an aggregate picture of profits in the nationalised industries in Bangladesh has remained difficult. In contrast to the financial institutions in the nationalised sector data from the industrial enterprises seem to be incomplete and tentative. The table below attempts to present a consolidated profit position of the nationalised industries. In spite of losses in aggregate it depicts a remarkable recovery in respect of profitability of the nationalised industries excluding the jute sector in the terminal year of the FFYP.

82 *Ibid.*

TABLE 14
Consolidated Profits/Losses of the Nationalised
Industries in Bangladesh 1972-78 ⁸³
(in million Taka)

<u>Financial Year</u>	<u>Total Amount</u>	<u>Total Excluding the losses of the BJMC</u>
1972-73	- 232	93
1973-74	+ 78	400
1974-75	- 243	- 2
1975-76	- 312	- 27
1976-77	- 309	216
1977-78	- 123	513
	<hr/>	<hr/>
Total	-1141	1193
	<hr/>	<hr/>

The above tabular presentation on the profitability of the nationalised industries however present a dismal picture. The following general conclusions can be drawn:

- (a) Nationalised industries have incurred heavy losses since their inception. The corporations have been a net drain on the budget in the sense that the cost of capital has not been covered. But for the taxes and duties collected as a result of the operation of the nationalised industries and foreign exchange earned through exports of the products of the industries the net financial results could have been negative.
- (b) Profit performance varied considerably among the different corporations. Significant fluctuation in profits of the individual corporations is also discernible. Jute corporation suffered continuous losses since its inception and mainly contributed towards the poor performance of the nationalised industries in financial terms. If the jute sector is excluded the nationalised industries would show an aggregate net

⁸³ For sources and basis of calculation see Appendix Part B Table No.

profit of Taka 1193 million up to the end of the terminal year of the FFYP. If jute figures are incorporated the total loss in financial terms for the nationalised industries sector stands at Taka 1141 million during the corresponding period. It must, therefore, be admitted that not much reliance can yet be placed on nationalised industries for obtaining resources for investment.

(c) Profitability performance of the nationalised industries needs to be qualified suitably by the quantum of indirect returns expected of it. Financial profitability is not an adequate indicator for measurement of the efficiency of a public enterprise. There are other benefits of nationalisation⁸⁴ and many of the indirect returns though not easily quantifiable consist of a complicated series of chain effects.⁸⁵

(d) The profit being a function of price⁸⁶ with a strict political control on price the limit for profitability is set by the government. Thus financial losses by the chemical and textile sector were largely due to reluctance of government to grant price increases for fertilisers, newsprint and textile products for factors external to the operation of these enterprises. On the other hand steel and engineering industry has been able to generate a sizeable profit in spite of their low production efficiencies. This was possible due to the monopoly status of BSEC in respect of many of its products and also price increases granted by the government in 1976 and 1978. The jute sector sustained a continuous loss (besides production inefficiency) because export prices of jute goods had to be maintained at relatively low levels in

84 See for a discussion of various other benefits of nationalisation, Awad, *op. cit.*

85 Ramanadham, *Finances, op. cit.*, pp. 40-45, p. 53.

86 *Ibid.*, p. 55.

view of stiff competition from synthetic substitutes and other jute goods manufacture. On the other hand cost of production remained high due to poor maintenance of machinery and inefficient management⁸⁷.

Contribution of the Nationalised Industries to Government Exchequer

According to FFYP projections, 68 per cent of the domestic resources for the planned development during the Plan period was to be generated by the existing and new taxes. The nationalised industries are the major producers of the manufactured goods and in quite a few cases the only producer of certain products in the country. Their imports and exports constitute a major segment of the foreign trade. Since much of the governmental revenue comes from custom duty, sales tax, excise duty and also from business income tax, the nationalised industries offered a major potential contributor of tax revenues to the treasury. This in turn could help national savings and resource generation for further investment.

Aggregate tax revenue for the Government of Bangladesh during 1973-74 to 1977-78 was Taka 43,304 million of which receipt from custom duty, excise duty, sales tax, income tax and corporate tax was Taka 31,664 million⁸⁸. Against this, the nationalised industries contributed to the government exchequer in the form of duties and taxes an amount to the order of Taka 8700 million during the five years of the FFYP. The table below gives a break-up of amount paid by the nationalised industries over the years.

87 *Infra.* pp. 282-4.

88 *Review 1978, op. cit.* p. 206. The actual amount of tax revenue was later found to be more as the Table 15 shows.

TABLE 15

Contribution of the Nationalised Industries to the Government
Exchequer (Tax and Non-Tax Revenues) During the FFYP Period ⁸⁹

(in million Taka)

<u>Year</u>	<u>Total Government receipts</u>		<u>Contribution by the Nationalised Industries</u>	
	<u>Tax revenue:</u>	<u>Non-tax revenue</u>	<u>Tax revenue:</u>	<u>Non-tax revenue</u>
1973-74	2959	959	1255	29
1974-75	4836	1691	1363	99
1975-76	7950	2238	1612	68
1976-77	7426	2294	1894	34
1977-78	10291	2814	2560	261
Total	33462	9996	8684	491

The aggregate contributions of the nationalised industries to the government exchequer thus constituted approximately twenty one per cent of the total tax revenue receipts of the government during the First Plan period.

Sales, Exports and Foreign Exchange

Value of the aggregate sales of products of the nationalised industries increased by about 95 per cent during the First Plan period. The following table depicts the overall picture as made up by the activities of the nationalised industries during the FFYP period.

⁸⁹ For national aggregate of tax revenue, Government of Bangladesh, Ministry of Finance, *The Economic Situation A Monthly Summary, February 1980*. (Dacca: Bangladesh Government Press, 1980), p. 2; For aggregate non-tax revenues for the government and the nationalised industries, *Review 1978, op. cit.*, p. 206. Figures regarding tax revenue contribution of the nationalised industries: respective corporations/their annual reports. Yearly average revenue has been assumed for the data which could not be obtained. For details see Appendices.

TABLE 16

Value of Sales of Products of the Nationalised
Industries during the FFYP period ⁹⁰

(in million Taka)

<u>Financial Year</u>	<u>Amount</u>	<u>Index</u>
1973-74	5388	100
1974-75	6916	128
1975-76	9532	177
1976-77	10494	194
1977-78	12404 +	230

However, the increase in sales value was mainly due to rising prices as production increased little⁹¹ in most corporations in comparison to the rise in prices. It was as the principal foreign exchange earner that the nationalised industries dominated the Bangladesh economy and somewhat redeemed the position of dependence for funds from the government. Jute industry alone contributed more than 50 per cent of the total exports of Bangladesh and the share of BJMC products was more than 86 per cent of the total exports of the nationalised industries. After jute goods, the major exports from the nationalised industries were paper, newsprint, tanned and semi-tanned leather, naptha, furnace oil, processed fish, shrimps etc. In addition, insignificant quantity of rayon, cellophane, paper board, sugar, molasses, meal powder

90 Figures have been compiled on the basis of data available in the Head Offices of the respective corporations. Published sources are: Annual Reports of BJMC, BTMC, BSFIC, BFIDC and *Review 1978*, *op. cit.* IBRD, *Prospects Vol. 1 & 2*, *op. cit.* Also Ministry of Industries, Nationalised Industries Wing have provided some data.

91 *Infra.* p.264. In case of jute goods manufactured by BJMC production increased from 500,000 tons in 1973-74 to only 547,000 tons in 1977-78 whereas the sales value increased during the corresponding period from Taka 1657 million to Taka 4033 million.

wheat bran, canned food, safety matches, electric bulbs, bicycles, electric fans, fluorescent tubes, galvanised steel pipes etc. were also exported. Exports of the products manufactured by the nationalised industries were responsible for earning more than 56 per cent of the country's total exports during the period between June 1973 and June 1978 as the table below shows:

TABLE 17

Share of the Nationalised Industries in the Total Country Exports
in Bangladesh during 1972-3 and 1977-8 ⁹²

(in million US dollars)

<u>Year</u>	<u>Aggregate Exports of Bangladesh</u>	<u>Exports by the Nation- alised Industries</u>
1972-73	340	193
1973-74	361	210
1974-75	358	243
1975-76	373	212
1976-77	403	225
1977-78	468	256
	<hr/> 2303 <hr/>	<hr/> 1339 <hr/>

The jute industry in Bangladesh was export oriented and more than 90 per cent of the production of the BJMC mills were exported during the FFYP period. Likewise 24 per cent of the total production of paper and newsprint by the BCIC mills were exported. Almost the entire production of processed fish, shrimp etc. was exported. Export sales of the nationalised industries constituted approximately 32 per cent of the aggregate sales value of their products

92 Export Promotion Bureau, Government of Bangladesh. The aggregate national earnings through exports during the First Plan was Taka 25,147 million. Against this jute products alone contributed Taka 12,727 million. See *Survey 1979, op. cit.* p. 291. Also see Appendix.

during the FFYP period⁹³.

C : PRODUCTION AND ITS HINDRANCES

One of the basic objectives of planned development programme in Bangladesh was to expand the output of essential consumption items with a view to provide the minimum consumption requirements of the people. The FFYP specifically mentioned in the basic objectives such items as food, clothing, edible oil, kerosene and sugar. The Plan also sought to reduce dependence on foreign aid through expansion and diversification of exports. Priority was attached to the production of fertiliser, cement and steel. The nationalised industries sector was predominantly responsible for manufacturing and processing all these items. Output in major groups of nationalised industries showed considerable improvement over the production level in 1973 and in some cases it exceeded the 1970 level mainly due to creation of new capacity. But the actual achievement was far short of the target set in the FFYP.

TABLE 18

Shortfall in Achieving the FFYP Production Target
For Some Major Products of Nationalised Industries⁹⁴

<u>Items</u>	<u>Units</u>	<u>Benchmark Production 1969-70</u>	<u>Target Production For the Terminal Year 1977-78</u>	<u>Actual Product at the Terminal Year 1977-78</u>
Jute Goods	Tons	587,000	766,000	547,000
Sugar	Tons	106,000	148,000	175,000
Paper/Newsprint	Tons	54,000	100,000	58,000
Fertilizer	Tons	101,000	700,000	279,000
Steel Ingots	Tons	80,000	450,000	115,000
Cement	Tons	53,000	1000,000	339,000
Cotton Yarn	Pounds	86 million	197 million	107 million
Cloth	Yards	72 million	191 million	100 million

93 *Supra*. Table 16, Aggregate value of sales of the products of the nationalised industries is estimated at Taka 44834 million for the five years of the FFYP. Against this exports of jute goods, paper
(Continued over)

Although production in 1977-78 could not attain the FFYP target level, it largely recovered the pre-Liberation status and in some cases exceeded the previous maximum. The index of production of the major commodities of the nationalised industries would show⁹⁵:

TABLE 19

Production Indices of Commodities in Nationalised Industries
1970-1978 (1973-1974 = 100)

<u>Product</u>	<u>FY70</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>
Jute Goods	112	100	88	95	98	109
Cotton Yarn	109	100	105	95	98	111
Cloth	75	100	110	97	88	128
Sugar	105	100	112	99	158	198
Paper	129	100	104	75	100	116
Newsprint	138	100	111	77	54	115
Fertilizer	35	100	34	114	118	96
Steel Ingots	72	100	102	121	138	155
Cement	98	100	265	294	581	639
Petroleum Products	278	100	233	255	321	295
Natural Gas		100	66	100	118	128

In the terminal year of the First Plan-1977-78, the production of all commodities except fertilizer exceeded the level of the base year and except jute goods for all commodities vis-a-vis the level in 1970. The aggregate value in monetary terms of the principal commodities produced by the nationalised industries (excluding petroleum products and natural gas) was Taka 6663 million in 1977-78 against Taka 5659

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- 93 (Continued) newsprint and petroleum products come to Taka 13455 million during the corresponding period besides other items of exports from the nationalised industries. See *Survey 1980, op. cit.* p. 284.
- 94 *FFYP, op. cit.*, pp.220-221; *Review 1978, op. cit.*, p. 202; *Survey 1979, op. cit.*, pp. 252-253.
- 95 *Ibid.*, *Prospects*, Vol. II, *op. cit.*, also *Statistical 1978, op. cit.* p. 198.

million in 1969-70 at 1973-74 constant price. The table below gives the year-wise aggregate value of the produce of the nationalised industries except petroleum and gas sectors:

TABLE 20

Value of Production of the Nationalised Industries
at 1973-74 Constant Prices ⁹⁶

<u>Financial Year</u>	<u>Total Value in million Taka</u>	<u>Index</u>
1970	5659	100
1973	4445	78
1974	5519	97
1975	5463	96
1976	5536	98
1977	6074	107
1978	6663	117

The production of the nationalised industries was slow to pick up and it was as late as in 1977 that production value of the manufactures surpassed the 1970 value. The production of the nationalised industries suffered immediately after Liberation. Reasons varied and differed not only across subsectors but also from plant to plant. Some of the problems were inherited and the rest were dislocations following the Liberation War. A number of common factors have been identified elsewhere. Bringing all these factors together the major difficulties can be summarised as:

- (a) Shortage of manpower owing to departure of non-local managerial, technical and skilled personnel could not be sufficiently bridged due to further depletion of the workforce who left for overseas employment particularly to the Middle East⁹⁷.

96 *Review 1978, op. cit.* p. 113.

97 IBRD, *Prospects*, Vol. II, *op. cit.*, p. 108.

(b) Disruption in supply of raw materials and spare parts in the wake of the Liberation War. The condition of equipment in the mills was poor which was partly due to neglect in maintenance during and prior to the Liberation War by the private sector owners. Some equipment was badly damaged during the War and rendered practically useless. In some cases equipment showed wide divergence and was obsolete and could not be replaced as it was no longer being manufactured.

(c) Inadequate supply and availability of indigenous raw materials⁹⁸ such as jute, sugar cane, bamboos or oil seeds resulted in unterutilisation of capacity. Likewise potential for expansion of certain industries such as fruits and vegetables processing and canning plants was limited owing to insufficient supply of fruits and vegetables or marine and inland fish.

(d) Chronic shortage of foreign currency impeded import of raw materials and spares for the industries. There was sharp increase in the cost of imported inputs. The industries further suffered due to increase in debt service liability as a result of the devaluation of the local currency. The export industries suffered initially due to overvalued exchange rate and later due to fall in international price of their products. Pre-liberation incentive in providing foreign exchange to the export-oriented industries in the form of the Export Bonus Scheme⁹⁹ was withdrawn and the facilities of foreign exchange

98 Production of oil-seeds in 1972-73 was 207,000 tons; in 1976-77 it was no more than 213,000 tons. *Statistical 1978, op. cit.*, p. 384. Between 1968 and 1976 total catch of fish in Bangladesh increased only by 17,000 tons whereas population increased by over 14 million. *Ibid.*, p. 174; For jute production see BJMC, *Problems of the Jute Sector as seen by BJMC* (Dacca, BJMC Public Relations Department, 1978) pp. 4-5.

99 *Report on Sick Jute Mills*, unpublished internal document prepared by BJMC, 1978.

allocation through the medium of the Export Performance Licence¹⁰⁰ were not extended to such important nationalised industries as jute, sugar, paper or newsprint. On the contrary the nationalised industries depending on imported raw materials suffered as they were not allowed to pass on the higher world market prices of the imported raw materials to the consumers owing to price restriction imposed by the government¹⁰¹.

(e) Transport system suffered serious damages during the Liberation War¹⁰². The inadequate port facilities and blockades of the port during the war added to the problems and slavage operations were delayed. Problems due to shortage of ocean going vessel hampered import of raw materials and export of finished products.

(f) There were frequent interruptions in power supply. Production loss due to power failure during 1972-73 was more than 10 per cent of actual in case of jute goods¹⁰³.

(g) Prevailing industrial disharmony was not congenial to smooth production. There were 643,246 man-days lost during the period between December 1971 to December 1974¹⁰⁴. In fact, post-nationalisation period was stated to be characterised with a higher magnitude of industrial conflict than ever before¹⁰⁵.

100 Through Export Performance Licence a registered exporter is enabled to additionally import certain specified items on the basis of a percentage determined on the value of his export. See Government of Bangladesh, Ministry of Commerce, "The Import Policy (January-June, 1978) Order", *The Bangladesh Gazette Extraordinary*, December 31, 1977).

101 Salahuddin Ahmed, Chairman BJMC, Interview, September, 1978.

102 BSFIC, *Report 1972-3*, *op. cit.*

103 BJMC, *Chairman's Report For 1973-74* (Internal document).

104 Government of Bangladesh, Directorate of Labour, *Bangladesh Labour Journal*, Vol. 2, 1974, p. 51.

105 Nuimuddin, *Industrial Conflict*, *op. cit.*

(h) Critical liquidity gap remained unbridged. In addition to the inherited factors, poor liquidity was due to unsold stocks, poor realisation of accounts receivable and inadequate contribution of working capital or introduction of fresh equity. Governmental control on price and distribution for certain products aggravated the liquidity position further.

D : COMMERCIAL AND MARKETING OPERATION

The commercial and marketing functions of the nationalised industries broadly comprised of the following:

- procurement of inputs;
- fixing the prices of the products;
- marketing the finished goods.

Procurement

The nationalised enterprises in course of their normal manufacturing operation had to procure plant, machinery, spare parts, industrial raw materials, stores and equipment. The procurement system was criticised on the grounds of it being not competitive and economical. It was much too centralised and caused inordinate delays. In the beginning the Department of Supply and Inspection of the government acted as the central purchasing organisation on behalf of several public sector organisations. Later, most of the sector corporations were authorised to make direct purchases. Financing of procurement through diverse sources, such as local currency, cash foreign exchange, tied or untied foreign loans or credits and barter created complications. The Cabinet Guidelines provided that all procurements and supplies were to be made in accordance with the purchase manuals and "normal commercial

practices". The government determined the procurement price of raw materials like jute or any other commodity needed in particular by the export oriented industries and made forecast on the demand. The internal procurement of indigenous raw materials like jute and sugar-cane was subject to influences of national policies on agriculture, food, jute or sugar. As about 62 per cent of the cost of production originated from raw materials for industrial production the effect of these macro-level decisions on the procurement prices was pivotal¹⁰⁶.

For procurement from overseas, foreign exchange both in cash and under aid, loan, credit or barter was made available by the government annually as well as on six-monthly basis. Normally for imports which were financed by the Import Policy, foreign exchange allocations were made on bi-annual bases to correspond with the period covered by the Import Policy. This system of implementing the import programme was conceived as an important instrument of industrial development and the import policies were geared to that end. The import policies were, therefore, formulated after much deliberation and inter-ministerial consultation. In their bias towards industrial sector the import policies were categorised as "production oriented". The import policies contained special provisions for meeting the requirements of industrial raw materials, chemicals, machinery and spare parts for the nationalised industries giving them priority over import of consumer goods. In addition, to encourage export oriented industries extra licences were issued to export industries over their normal share for import of their production requirement on the basis of their export performance. Thus, according to original estimate in the FFYP the

106 Head Offices of the Corporations and also *Review 1978, op. cit.* p. 199.

share of the public sector accounted for more than 85 per cent of the aggregate import liability for current inputs¹⁰⁷. Cotton textiles, chemicals and petro-chemicals together accounted for about 50 per cent of the total public sector import liability.

The manouverability to influence cost of materials, men and finances on the part of the nationalised industries was limited to some rationalisation in procurement procedures, prevention of wastage of materials and better financial portfolio distribution. The table below gives the composite picture of the cost of sales of the products of the enterprises run by BJMC, BTMC and BSFIC.

TABLE 21

Composition of Cost of Sales of the Products of the
Enterprises Under BJMC, BTMC and BSFIC During the FFYP ¹⁰⁸

(in percentage)

<u>Item</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>	<u>Total</u>
Materials	56	58	60	62	65	61
Wages and Salaries	22	21	18	17	16	18
Administrative and Selling Overheads	17	17	18	18	15	17
Financial Charges and Depreciation	5	4	4	3	4	4
Total	100	100	100	100	100	100

Material inputs components accounted for, on average, 61 per cent of the total cost. Inclusion of figures relating to other corporations indicated virtually the same result suggesting the preponderance of the material component in the cost structure of the products of the nationalised industries.

107 FFYP, *op. cit.*, p. 227.

108 Figures based on data collected from the respective corporations. See Appendices Part II, Table 17.

Price Fixation and its Implementation

The nationalised industries operated in various market situations. Some of the enterprises were operating under monopoly conditions. The nationalised sector had the status of single producer in cases such as fertiliser, sugar, jute goods, paper, newsprint, cement. In certain cases the nationalised enterprises had to compete with private sector producers as well as the imported products. Where needed, the government sought to control imports and prices to secure the monopoly position for the nationalised producers. Nationalised enterprises produced a variety of products - some were produced from local raw materials but mostly exported, some were manufactured from imported materials but consumed domestically and some were produced from local materials and were consumed locally.

Like many developing nations, no overall policy guideline on pricing in nationalised industries in Bangladesh seemed available¹⁰⁹. A pricing policy seems to have multiple objectives. In the ultimate analysis the issue of pricing policy involves some sort of value judgements about the objectives which the nationalised industries were expected to achieve in the economy. The Nationalisation Order did not give any guidance either to the objectives or on pricing of the products. As noted earlier¹¹⁰ the planning document made some reference regarding the quantum of profits to be aimed at by the nationalised industries. It proposed that the corporations would be free to fix their prices up to a limit of 10 per cent over their cost of production.

109 Basu, *Enterprise Policy*, *op. cit.* See the country papers on Sri Lanka, Thailand, Iran, Indonesia and India.

110 *Supra.*, p. 231.

From a logical point of view it meant that: (i) the enterprises should not run into losses; (ii) the enterprises should try to maximise their productive activity; and (iii) the enterprises should maximise their surpluses.

A considerable degree of diffusion existed in respect of responsibility for the pricing policy among the government, corporations and enterprises. This presented practical complications. In the private sector, on the other hand, the managers might decide on pricing subject to the broad policies laid down by the shareholders and any government control. The Planning Commission itself regarded price policy as a misnomer. There was, it stated, no rationale behind the pricing of industrial products in nationalised industries¹¹¹. In certain cases, the Cabinet fixed prices e.g. fertiliser, newsprint, sugar. In some cases, the Ministry of Commerce regulated the prices of some specified commodities under the Essential Commodities Prices and Distribution Order, 1970. But the criteria for defining essential items appeared to be somewhat misleading, since the prices of items like motor cycles, fans, television sets came under the purview of this Order. Initially during the pre-Liberation period this Ordinance was designed to regulate market prices to check profiteering in the private sector. After Liberation, it was applied to manufacturers in the public sector as well. This resulted in fixing prices at the producers' level but due to lack of control over the distribution system the set market prices were never properly controlled. This resulted in dealers, permit holders and the middlemen in the chain making windfall profits while corporations and enterprises were compelled to operate at regulated

111 *Plan 1974-75, op. cit.* p. 109.

factory prices and face liquidity crises and losses. Extreme shortages of consumer items¹¹² facilitated middlemen reaping the scarcity premium to the full. The government's attempts to introduce administered prices have had similar results. In the absence of a suitable distribution system, administered prices could not benefit those who were intended to be beneficiaries. In an inflationary and scarcity situation price control which fixed prices at below the market price was ineffective. The consumer remained the victim of high prices and the benefits accrued to the distributors and dealers. There were further anomalies as a result of the co-existence of public and private manufactures in the same sector and imports and domestic production of the same product. Some of the "essential" items were not subject to price and distribution control when imported under the Wage Earners' Scheme. Regulation of prices only in public sector products was not only discriminatory but also meaningless if the private sector had a free hand in pricing and distribution. Some public sector units had to make their pricing in such a way as to be able to pay one bonus a year when a private sector unit paid three bonuses a year by raising their prices more than proportionately¹¹³.

The nationalised industries were severely restricted in their ability to fix the prices of their own products. The major constraints

112 The Price Stabilisation Committee found that the decline in the total output of the country was a principal factor behind the rise in prices. Extent of decline in production in 1972 over 1969-70 was: cotton yarn 40 per cent, cloth 38 per cent, sugar 74 per cent, cement 58 per cent, paper and newsprint 53 per cent, jute goods 29 per cent, fertilisers 15 per cent, rice 18 per cent, edible oil-seeds 23 per cent, tea 22 per cent and petroleum products 15 per cent. Table 3.1 *Price Stabilisation*, *op. cit.* p. 34.

113 Muzaffer Ahmed, "Prospects and Problems of Nationalised Industries: A Critical Review of Views", *The Journal of Management, Business and Economics*, Vol. 1 (January, 1975), pp. 28-53.

were:

- (i) In many cases the input prices were predetermined as a part of the general policy of the government. Thus Annual Jute Policy determined the minimum price of raw jute, Sugar Policy that of sugarcane, Energy Policy that of petroleum and oil and electric power. In addition, international prices prevailed for imported items.
- (ii) Salary and wages bills were largely determined by the labour and wages policies of the government and the salary structure given by the government.
- (iii) Duties and taxes, depreciation and interest were also predetermined.
- (iv) A fixed charge of 7½ per cent on fixed investment was to be levied.¹¹⁴

Apart from these constraints, the government, in fact, exercised other significant explicit and implicit control over the pricing policies of the nationalised industries. For a large number of products of the nationalised industries pricing was done either explicitly by the government or in consultation with the government. As a matter of fact, there was not much difference between fixation of prices by the government and that in consultation with the government. The responsibility on matters of price policy was apportioned among different ministries. The Ministry of Commerce had the responsibility on matters relating to "Price Control", the Ministry of Industries for "pricing policy of the products of nationalised industries" and the Ministry of Jute for "fixation and control of price of jute goods". In practice interministerial consultations were held before a firm decision on pricing of products of basic importance was taken. Thus prices on, textile goods, sugar, cement, paper, newsprint and fertiliser were decided at the cabinet level. A Price Advisory Board¹¹⁵ was constituted

114 Interview with the officials of the Sector Corporations.

115 Prices and Tariff Commission was not, however, set up. Instead, the existing Tariff Commission continued to function. A separate Prices Advisory Board consisting of officials only, was set up in June, 1975. See *The Bangladesh Gazette Extraordinary*, 12 June 1975.

in the Ministry of Commerce in 1975 to fix the prices of essential commodities on national basis and to coordinate the prices of commodities locally produced and those imported. It was the responsibility of the Board to examine on a regular basis the cost of production and price of the manufactures of the nationalised industries and also to recommend the price of the commodities produced by nationalised monopoly or private sector industries.

There was much discussion at different levels in the government and at different times since Liberation on the various issues involved in price fixation and its enforcement, a mechanism for fixation of prices of the products of nationalised industries, and desirability of fixing "national" prices for as many commodities as possible and if possible evolving a "national price policy" for Bangladesh. But as has been observed, the use of pricing as a policy arm of the government presupposes centralised planning with a centralised planning authority as the arbiter on price variables¹¹⁶. Bangladesh was not obviously a centrally planned economy. The prices of all inputs and outputs were not administered and controlled by the State at all stages. Production and distribution were not all subject to State planning. The economy was far from being insulated from the international market forces. The FFYP did not envisage the Bangladesh economy as a centrally planned one. In fact the government's basic approach seemed to be to gradually move the economy towards market mechanism and to act both at macro and micro levels for price stabilization¹¹⁷. According to this approach the government was to interfere in a limited way and observe

116 Muzaffer Ahmed, *Problems*, *op. cit.*

117 As noted in *Price Stabilisation*, *op. cit.* Chapter IV and V.

the price trends of some essential commodities and take appropriate fiscal and monetary measures when the prices behaved irrationally. The government, therefore, interfered to protect the interests of certain economic groups or to attain greater economic development in a desired direction. One example is the jute industries which were sustained through government subsidy despite an average annual loss of Taka 390 million since nationalisation¹¹⁸. The gap between cost of production and export price could not be bridged through higher external value even though stiff rise in the cost of raw jute was primarily responsible for higher cost of production. In contrast textile industry suffered financially mainly due to nonadjustment of selling price to increased cost of production which had gone up as a result of sharp increase in the price of raw cotton in international market. The government would not, however, allow raising the export price of jute goods and domestic price for textile goods. In general, many of the issues concerning pricing of the products of the nationalised industries could not be satisfactorily resolved at the end of 1978.

Distribution and Marketing

The market in Bangladesh consisted of goods produced by the nationalised industries, goods produced by the private sector and commodities imported by commercial importers and public sector trading corporation. The Ministry of Commerce was responsible for price and distribution control of the commodities declared as "essential". Such goods as C.I. Sheet, cement, mechanically propelled vehicles, bicycles, tyres and tubes, mild food for infants, dry cell batteries, cocoanut oil,

118 *Supra.*, Table XIV.

electric fans and spices were declared essential for this purpose. Iron and steel items were included in the "essential" list. There was price control at different times in respect of C.I. sheet, tin plate, G.I. wire, G.I. pipes, radio, television, cigarettes, washing soap, coaltar, electric lamps and asbestos sheet. Many of these items were produced in the nationalised sector. But when some of these "essential" items were imported under the Wage Earners Scheme, price and distribution control did not apply. On the other hand control was exercised over the same goods when imported by the Trading Corporation of Bangladesh (TCB). The Ministry of Food was responsible for price control and distribution of rationed food items like sugar and also kerosene oil. The Ministry of Health was responsible for price and distribution control of drugs and medicines. The Ministry of Petroleum and Natural Resources was to control price and distribution of petroleum products.

The pattern of distribution of consumer goods was as follows:

- (i) State Trading: Rationing system was administered by the Ministry of Food and Consumers Supplies Corporation (hereafter CSC) distributed imported and local produced cloth and a number of other consumer items imported by TCB.
- (ii) Co-operative Societies: responsible for distribution of yarn cloth and consumer goods.
- (iii) Distributors/dealers appointed or approved by government for imported goods some of which were sold against permits.
- (iv) Sector Corporations: appointed distributors/dealers for their products.
- (v) Private traders for items imported by commercial importers and products of industrial units in the private sector.

The system outlined above was both complex and unsatisfactory. The limitation of the rationing system was that it could cover only a minor section of the market. Of the products of the nationalised industries sugar, edible oil and kerosene oil was distributed by this system to a

limited extent. Kerosene was distributed partly by the dealers of the BPC enterprises and partly through rationing system.

The goods imported by the public sector (TCB) were initially distributed mainly through the Consumer Supplies Corporation (CSC), the co-operative marketing society and dealers appointed in the various regional areas. The CSC until it was virtually dismantled because of allegations of corruption and malpractices used to sell the goods through its various fair price shops spread throughout the country. In the case of dealers, distribution was generally made against permits issued by the regional offices and there were also committees headed by local members of the Parliament to supervise the distribution during the Awami League regime.

The large chain of fair price shops of CSC in the rural levels were closed down because of unsatisfactory performance and later the activities of the CSC itself had to be extensively curtailed. The system of distribution through appointed dealers was also not free from abuse. The commodities were distributed throughout the country on an agreed principle of regional allocation. But often the appointment of dealers was made out of political consideration and in many cases genuine businessmen were not inducted. To patronise a large number of party men it was necessary to appoint dealers in numbers that were far from economical in size and of a reasonable margin. This gave incentive to malpractices. The original intention that CSC would perform as a price moderator and important channel of distribution for commodities of consumer interest which were manufactured in the nationalised sector was belied. The government policy limited responsibility of the nationalised industries to the aspects of production. The

responsibility for distribution and marketing of the products of the nationalised enterprises however varied from corporation to corporation. Thus owing to the relatively small size of the domestic market, public sector activities in jute products was mainly confined to exports. Initially only BJMC had the monopoly to export jute products and only it could enter into export contracts for jute products. The export trade of jute products was opened up for the private sector during the later part of the FFYP, the end of 1978. Export activities were thus confined mainly to the public sector. On the other hand, the sales of BTMC products were limited to the domestic market and BTMC unlike BJMC had no responsibility for the distribution of its products. The distribution of yarn and cloth was undertaken by other public sector agencies under strictly controlled allocation system. The marketing directorate of BTMC had concentrated only on purchase of raw materials. In the case of sugar, the government framed policies regarding sales, price and distribution for the nationalised enterprises. The BSFIC followed the marketing policy announced in the government's annual sugar policy which made allocations to the Food Ministry for selling through ration system, to the farmers of sugarcane, for exports and lastly a minor proportion for sale in the open market. Similarly BCIC had no hand in marketing, sales and distribution of its major product - fertilizer. The entire production of fertilizer was distributed by Bangladesh Agricultural Development Corporation at a price decided by the government. The government decided the national price of cement which was backed by full distribution control. This national price was, however, later withdrawn and the dealers were given freedom in respect of distribution and fixation of retail selling price once the

government fixed the ex-factory/ex-godown price of imported and locally produced cement. BPC controlled the sale and distribution of petroleum products through its subsidiary marketing companies and dealers appointed by them. In many cases again enterprises themselves had been distributing their products themselves and partly through distributors. The lack of uniformity in the system led towards studies which suggested that the marketing function of the nationalised industries should be centralised within the marketing directorate of the respective corporations and strengthened. Accordingly, the marketing directorate of each corporation was organised as a national pool of the product of the various enterprises under it and allocated the same according to regional demand. It also earmarked the products for the purpose of exports where possible.

Problems Relating to Domestic Sales and Distribution of Yarn

The problem of domestic sales and distribution of the products of the nationalised industries was perhaps best exemplified in the yarn industry. The textile industry was totally oriented towards meeting the internal demand but was almost completely dependent of imports of raw cotton and yarn. The bulk of the nationalised textile industry was devoted to spinning of the yarn. The handloom weavers were the major consumers of this yarn who provided some 70 per cent of the cloth consumed in the country. Until 1975, the sale of yarn and cloth produced by the nationalised mills was fully controlled by the government. While the responsibility of BTMC was limited to the aspects of production, distribution of yarn and cloth was the responsibility of other public sector agencies including the organisation of

cooperative societies in which many small handloom weavers were members. This system was designed to replace the pre-Liberation private yarn traders. This pattern seemed to have been devised out of the conviction that private middle men were obtaining very high profits in channeling first the yarn to the small and poorly organised handloom weavers and then the cloth from the weavers to the ultimate consumers. However, the important economic functions performed by the middlemen were overlooked and the replacement devised was unequal to the task. The public sector agencies failed to lift their full supplies of stock resulting in building up of a huge inventory and at the same time an artificial scarcity of yarn and cloth was created which shot up prices. There was control on selling prices charged by the mills but not on the prices charged in the open market. The unlifted stock caused liquidity problems for the mills. In the fact of the difficulties encountered, the sales and distribution system was decentralised in the later part of 1975. The enterprises were authorised to sell yarn and cloth to the dealers appointed by the Ministry of Commerce and local authorities under broad guidelines given by the corporation. The enterprises were permitted to sell directly to handloom weavers as well as to the public sector agencies servicing the latter. As a result, accumulation of stock declined. Even then there were too many licence holders and genuine business men were not allegedly getting supply of yarn according to the needs. On the other hand, the fake businessmen reaped the scarcity premium and sold their supply of yarn to genuine yarn dealers. An official committee therefore recommended for reintroduction, with some modifications, of the pre-Liberation distribution system to eliminate fake businessmen and

to ensure supply of yarn at reasonable prices to handloom weavers.

Constraints in Marketing Abroad and Exports

The bulk of the financial deterioration of the jute industries the prime foreign exchange earner for Bangladesh could be attributed to the fact that its export prices were obtained internationally at below cost of production. Historically, maximising the export of jute manufacture was pursued as a strategy aimed at enhancing the foreign exchange base. The measures introduced to stimulate development included a range of credit, tax and licencing policies which provided guidance, financial support and protection to jute mills. Most important was the Export Bonus Scheme which in effect heavily subsidised the jute industry through augmenting domestic currency received from exports of jute goods. The competitive position of jute products was seriously threatened in recent decades due to the inroads of synthetic substitutes. The position further deteriorated due to the conditions prevailing in the economy from 1970 to 1972. The buyers were uncertain of the supply and had, therefore, developed substitutes during the interim.

After Liberation, the Bangladesh jute industry experienced loss of protection with the withdrawal of the Export Bonus Scheme. There were sharp increases in the cost of inputs, at rates surpassing increase in export prices of jute goods. On the other hand, there was excess capacity and lower labour productivity. The cost of production kept on rising steadily¹¹⁹ and the overall efficiency declined¹²⁰. The

119 Taka cost of production of jute manufacturing increased sharply after Liberation. The table below illustrates:

(Continued over)

extent of financial losses widened further as the industry was not covering its costs even before depreciation and interest. If the industry was to cover its production costs at current export prices excluding subsidy and to generate profit to put aside for replacing machinery and equipment, reductions in operating costs were required. As the raw jute constituted about 60 per cent of the total cost of jute goods the competitiveness largely depended on the low production cost of jute fibre in the absence of an expanding market and recovery of market from the synthetic products. But reduction in the price of raw jute was dependent on variables on which the industry had scant control. Because of food shortage and high prices of rice, Bangladesh was faced with a dilemma of how to revive, maintain and increase jute production. There has been no breakthrough in jute research during the past sixty years on the yield per acre. Moreover, there were different agencies responsible for processing improved variety of jute seeds, utilisation and related extension services and the responsibility to manufacture jute goods without having a control over the instability in the prices of raw jute. The BJMC was hardly ever in a position to economise in its purchase of raw jute which alone at a time required financial resources to the order of Taka 1600 to Taka 1800 million¹²¹. No banking system in Bangladesh would be able

119	(Cont.)	Index of Taka Cost of Production of Jute Manufacturing in Bangladesh		
	Item	1969-70	1973-74	1975-76
	Hessian	100	220	305
	Sacking	100	226	288
	Carpet backing	100	223	306

BJMC, Report on The Five Sick Jute Mills, *op. cit.*

120 IBRD, *Bangladesh Survey of the Jute and Cotton Textile Industries* (Washington, 1975).

121 Interview with Mr. Salahuddin Ahmed, Chairman, BJMC, September, 1978.

to release such huge funds at a time without unleashing an inflationary pressure in its wake.

In addition, foreign credits were not forthcoming as the creditors became apprehensive of the market shrinkage against the inroads of substitutes. There were anomalies in the government policy in respect of allocation of foreign exchange. The facilities of allocating foreign exchange for the import requirement of export industries in the form of Export Performance Licences was not extended to jute industry. As a result there was delay in allocation and release of foreign exchange which disrupted operation and dislocations in meeting the export schedule. Along with the withdrawal of Export Bonus Scheme new taxes were imposed on the jute industry. It was difficult to defend this new tax burden on an industry which was being subsidized by the government to help it going¹²². Moreover such facilities as payment of cash subsidy or rebate of custom duty and import licence and tax paid on imported raw materials used for export goods were not made available to jute industry.¹²³

For the paper and newsprint industries, the loss of West Pakistan market posed a serious blow after Liberation. Domestic consumption was less than 50 per cent of the installed capacity of papers and less than 25 per cent of newsprint production. The main problem facing the export of paper and newsprint however was the discrepancy between the domestic cost of production and the international price level. Even average domestic sales prices was less than the variable production cost in all the mills. It was only with increased capacity utilisation, reduction of cost, improvement in quality of the products and enhanced

122 *Ibid.*

123 Interview with Mr. M.A. Syed, Director Marketing, BJMC, November, 1978.

external sales that the situation could be salvaged. But the increase in cost of production remained the major hindrance. The cost of production of newsprint per ton increased by 268 per cent and paper by 195 per cent since Liberation¹²⁴. The main elements for such abnormal increases were the steep rise in the prices of furnace oil and imported chemical pulp which accounted for 31 per cent and 26 per cent of total cost in 1975-76¹²⁵. The newsprint mill did not receive any compensation for the losses sustained by it owing to the price control imposed by the government. As an export oriented industry, the mills did not receive a rebate of excise duty on furnace oil or a moratorium on payment of outstanding loans of the banks or similar other facilities. The mills did not receive any benefit in the export market from the 1975 devaluation for the cost push originating from devaluation. Instead government had withdrawn the cash subsidy granted before devaluation. No attempt was made by the government to impose a ban on the import of certain quality papers which could have helped the industry. The paper industries did not receive any export rebate on excise duty on furnace oil similar to rebate allowed for duties paid on other imported raw materials. The paper units were not allowed to draw power from the national grid which would have been comparatively cheaper to use. The higher cost of production due to devaluation and the world wide recession stunted the possibility of an extension in the export market of the Bangladesh paper products and crippled the industries.

The extreme dependence of the jute goods indicated an unhealthy structure of the export sector in Bangladesh. With disinvestment of

124 Ministry of Finance, *Report of the Inspection Team of the Inspection Division, Ministry of Finance into the Affairs of Bangladesh Chemical Industries Corporation* (Dacca July 1977) unpublished internal document.

125 *Ibid.*

tanneries, export of leather no longer remained within the ambit of the nationalised industries at the end of the FFYP period. The most important manufacture for export purposes after jute, paper and newsprint was processed and frozen fish shrimps etc., which during the last two years of the First Plan came to constitute a little more than 7 per cent of the export of jute goods. But the plants of the nationalised industries were already operating close to capacity and scope for expansion of export was limited due to depleting local source of raw materials and stiff foreign competition. The desire of the government to diversify the export base received an expression in an attempt to export sugar in 1978 which caused a loss of Taka 65 million for the nationalised industries for having to sell at a price which was only 41 per cent of the domestic open market price. There were some minor exports in various other commodities produced in the nationalised industries. But in general the export potentialities of the divergent products remained greatly unexplored. With quality control, market research and some dynamism in salesmanship the process of diversification could become a possibility. But the marketing services of the corporations needed to be strengthened. There was a need for collection of marketing information and overseas promotion. Detailed studies were necessary of the current and short term as well as long term world market for the major products like jute, paper, newsprint and sugar. There was also a need for quality control and qualitative improvement of many of the products of the nationalised industries to make them more eligible for the export markets.

E : DEVELOPMENT AND EXPANSION

The FFYP was formulated on a weak base and optimistic assumptions. The state of the economy was poor and shaken in the manufacturing sector and industrial output in the base year of the Plan was 23 per cent below the normal output of the pre-liberation period. The damages and dislocations suffered during the Liberation War took a longer time to repair and recoup than anticipated. The world wide inflation and oil crisis and recession shattered the assumptions of the plan. The corporations controlling the various nationalised industries, nevertheless submitted as part of the national plan, proposals for balancing, modernisation and rehabilitation and also expansion of the various enterprises placed under them. There were proposals for completion of projects which were under-way, either for expansion of existing capacity or establishment of new facilities. In some cases projects had been started prior to the Liberation War and even much of the imported equipment had actually arrived. To replace the damaged and lost equipment additional funds were required. Funds were received from the government under the various Annual Development Programmes but non-availability of foreign exchange remained a major bottleneck.

The long term prospects of the nationalised industries depended on the capability to achieve significant improvement through development of new uses and new market. With the existing poverty and resource constraints of Bangladesh there appeared to be scant immediate possibility of substantial stimulation in the effective domestic demand despite the lack of evidence of a tangible deceleration in population growth. It has been said that the development strategy in the poor countries has both short run and long run aspects. In the short run

the strategy must be aimed at reducing the shortages of the critical items and inputs, curb inflation and enhance foreign exchange earning potential. In the next stage, taking cognizance of the lessons of experience in the short run a long term perspective needs to be conceived with the development strategy oriented towards "specific goals and actions" for attack on mass poverty and unemployment¹²⁶. This would necessitate a "reordering of investment programme and the sectoral allocation of resources". The planners in Bangladesh seemed to have adopted this "consistent framework" and proceed on the assumption of an attainable minimum basket of consumption and fixed the production targets accordingly. But the aspects of demand and income tended to frustrate the strategy. It was found difficult to create new productive capacity in the jute and paper industries although they used indigenous raw materials. Any projected extension was constrained by international market forces as well as restricted availability of domestic supply of the raw materials. On the other hand, despite subminimum consumption of cloth per capita, the scope for extension of capacity in the textile industry was severely limited not only because of foreign exchange constraints to import raw cotton but also a lack of potential increase in the domestic demand due to poor purchasing power. More or less the similar conditions would apply in all other subsectors. This emphasized the important role of research and development in fostering industrial development. Although research and development can be regarded as an "input in the aggregate national production function inadequate attention was given

126 Nurul Islam, "Development Strategy in the Poor Countries", *The Bangladesh Development Studies*, Vol. 3 No. 3 (July 1975), pp. 367-77.

to it in the planned development programme in Bangladesh. Only two per cent of the public industrial outlay of the FFYP was allocated to research and study¹²⁷.

A cursory glance at some of the specific industries and their problems would bring out the fact that role of the research and development function was not adequately appreciated. To take the textile industry in Bangladesh, there has always been a need to review its development strategy. Given nearly full dependence of the industry on imported raw cotton and textile machinery an evaluation of the alternatives of expanding yarn capacity to achieve self sufficiency as compared to import of additional amount of yarn could be warranted. Within the textile industries, spinning is the most capital intensive and the net foreign exchange savings after allowing foreign exchange costs of both the raw materials and equipment might well be marginal. The net foreign exchange savings could indeed be negative as compared to imports of yarn unless a high level of productivity was achieved¹²⁸. There was also the need to assess the potential of the handloom industry¹²⁹ as compared to the larger integrated textile mills in the nationalised sector specially in respect of potential dislocation of a more than 750,000 weavers in the handloom sector. The overall balance of payments positions also called for careful consideration of consumption and hence expansion programme. To achieve 9 yards of cloth per capita consumption by 1980 would necessitate an increase in the import requirement of raw materials and additional machinery. The raw materials alone would double the present level of annual import bill of raw cotton and yarn. This leads to the

127 FFYP, *op. cit.* p. 214, Table 9-3.

128 World Bank, *Jute and Cotton Textiles, op. cit.* Part II, p. 18.

129 See, *Year Book 1979, op. cit.* p. 248 for summary results of handloom industries.

need of search for alternative raw materials particularly the man made fibres from local resources of which a small supply of nylon and rayon filaments was already available. A comprehensive study may be undertaken of the possibility of using man made fibres which would include consideration in the first stage, of importing fibres for blending with cotton and in subsequent stages, of domestically producing the basic raw materials from natural gas and refinery wastes. Such a development strategy of the cotton textile industry should try to maximise the potential of the labour surplus economy through manufacturing fabrics with blends of cotton and man made fibres.

The loss of market share by jute products to synthetic has forced the jute producing countries to reduce the price of their products substantially. In Bangladesh, this has meant exporting at a price that had been less than the cost of production. The raising of overall industrial productivity efficiency and reduction of domestic cost can retrieve the position to a certain extent. But a firm solution need to be sought in a breakthrough in jute research first through arresting the decline in yield per acre and then attaining an agricultural productivity in jute that would make it substantially competitive to rival agricultural crops and to manufactured synthetics. This might enable the jute industries to be free from its dependence on subsidies and eliminate the need for such make-shift arrangements as Export Bonus Scheme. But until this does materialise, concerted efforts are needed for market promotion and research. Simultaneously multipronged drive needed to be mounted for agricultural research on jute, improvement in quality of jute products and also diversification of jute products finding newer uses of jute. The future development programme of jute

industries needed to be oriented towards the above goals along with the measures for modernisation, balancing and replacement of existing machinery and taking curative measures to check the declining efficiency which has been vexing the industries since 1960's. For this joint collaboration with foreign agencies can also be envisaged in the fields like manufacture of jute carpets¹³⁰.

Likewise research and development efforts to enhance the productivity of all indigenous raw materials like sugar cane, fruits and vegetables, tobacco, fish, livestock and forest products like bamboo should have priority in future expansion programmes. Exploration, development and fruitful utilisation of mineral resources to industrial manufacturing should also be an important part of the program. But additional efforts will be needed to implement such projects as manufacture of urea, fibres and P.V.C. based on the only mineral resources of significance that Bangladesh possess. Demand projections for the internal market indicate a substantial growth in urea requirement over the next two decades. Urea requirements would increase by more than 5 times by 1995. To satisfy this demand several large urea plants would have to be built over the next ten to fifteen years. Gas consumption of such plants, according to the known reserves could be quite feasible. On the other hand methanol could be developed as a gas based industry in Bangladesh. Besides being a substitute fuel for fuel oil, gasoline and diesel oil, in the context of Bangladesh it could be replacement for kerosene in household applications such as cooking and lighting.

Finally, in the context of predominantly agricultural characteristics of Bangladesh economy, extension and development of nationalised

130 A well established jute carpet industry already existed in Yugoslavia, for example. The new carpet units with Iraqi assistance were being established. BJMC, *Problems*, op. cit. p. 82.

industries, have great relevance to modernisation of agriculture. The nationalised industries provide necessary support to agriculture through manufacture of fertilizer, pesticide, agricultural equipment, pumps etc. and also through extending facilities for storage, preservation and processing of agricultural products. Moreover, in selecting development products, like most developing countries labour intensity in manufacturing activities is not only feasible but also immensely desirable. Future expansion programme of nationalised industries cannot be oblivious of this imperative need.

Summary Observation

Government intervention in investment, capital structure and financing was inescapable. The sources of investment funds for the nationalised industries emanated from the government. Investment in the nationalised industries had to fit in with national economic planning and maintain a link between the corporate goals and the national goals of development. The extent of financing programme other than the governmental sources especially borrowing through the markets by issue of stocks and otherwise reserve creation as in private enterprise firms was limited. Modern investment appraisal techniques were applied perfunctorily, if at all. There was no clear guideline as to who could take non-economic considerations into account while deciding policy - executive government or legislature and with the executive government, ministry or corporation. The nationalised industries could hardly make any amount of capital available for investment. The plea that economic calculus alone should not dominate the decision process was frequently taken as a refuge.

The policies, practices and machinery of price fixation, marketing and distribution and production did not evolve on the basis of a clearly defined national objective or objectives to be achieved. In an imperfect market situation as in Bangladesh, where output has been a function of physical availability of inputs, limited demand and managerial ability rather than of monopolistic manipulation, the extent to which a price policy could be applied for determination of output was limited. The nationalised industries could hardly exploit their statutory monopoly to meet every increase of costs with a rise in price and rely on the monopoly to yield necessary increase in revenue. The economy of Bangladesh was far from being a centrally planned one as professed during the Awami League regime and as such a centrally fixed price could hardly be relevant. Moreover, the degree of freedom in fixing prices itself was limited. In the absence of a suitable distribution system, regulated prices could not be implemented for the benefit of the consumers. This was a situation when some privileged groups in the private sector could fleece the consumers, make huge profits and evade payment of taxes while the public sector was not allowed to mop up the scarcity rent in inefficient supply conditions.

The question of disposal of profits along with capital structure and pricing is important in investment planning for the national economy for redistributing incomes and accumulating savings for reinvestment through the medium of profits of the nationalised industries. However, there was no explicit policy guideline in this respect for the nationalised industries to generate a "return" on the capital employed although the social cost benefit function of the public enterprises has been indicated in the FFYP.

In sum, there has been inadequate attempt at identification of commercial and economic objectives on the one hand and the social and political objectives on the other; while non-commercial objectives have often been emphasized quantification of the cost of these non-commercial objectives in the targets assigned were yet to be attempted.

CHAPTER VI

THE HUMAN RELATIONS IN THE NATIONALISED INDUSTRIES

Nationalisation was expected, among other things, to fill up the entrepreneurial and other personnel vacuums which resulted in the wake of the Liberation War owing to the exodus of non-local owners, entrepreneurs, managerial and various other technical personnel. Assumption of ownership of the industries by the State foreshadowed its role as a model employer. Predilection with socialist ideology indicated the need for ownership of the means of production in the interests of the society as a whole and effective democratic participation by production and other workers in the management of the means of production¹. In this chapter, an attempt will be made to appraise the personnel policies, strategies and practices as evolved in the nationalised industries of Bangladesh and to examine if a durable, sound and well-integrated system of personnel practices and of industrial relations could be established. The question is how far the ruling elites in Bangladesh were concerned to develop a productive and efficient work force. Did the government make a concerted move to recruit, deploy, utilise and develop the human potentialities for the purpose of operating the nationalised industries in most efficient manner possible? It will be examined if nationalisation succeeded in providing a sound entrepreneurial base for the industries in Bangladesh and if nationalisation helped in achieving industrial democracy.

1 *Constitution, op. cit.* Article 13 calls for people's ownership and control of the instruments and means of production and distribution.

A Personnel Strategy

A personnel strategy for the nationalised industries in Bangladesh could not overlook the need to promote a creative synthesis² between two apparently contradictory imperatives towards (i) more efficient production of quality goods and services and (ii) a higher quality of life in the organisation. The obligations of the personnel policy in the nationalised industries was, therefore, not limited to provide the enterprises with a competent work force. It was expected that the nationalised industries would display socially responsible behaviour regarding the quality of life for the work force. A personnel strategy for the nationalised industries could not become a private world but must develop in tune with the national values, ethos and the milieu³. The increasing complexity of economic, political, social and cultural environment along with the newer organisational problems of governmental units, labour unions and related social organisations created a growing atmosphere of impersonality.

The policy planners in Bangladesh faced the task of evolving a personnel strategy within the framework of the national ideology as expressed in the Constitution and physical targets as stated in the FFYP. A fundamental responsibility of the State was to achieve a steady improvement in the material and cultural standard of living of the people. It was the accepted duty of the State to provide for the basic necessities of life including food, clothing, shelter, education and medical care. The citizens had the right to work, the right to guaranteed employment at a reasonable wage having regard to the quantity

2 Wendell French, *The Personnel Management Process, Human Resources Administration*, (Boston: Houghton Mifflin, 1974), p.721.

3 *Supra.*, Chapter II.

and quality of work, the right to reasonable rest, recreation and leisure and to social security⁴. The State had an obligation to make endeavours to create conditions in which human labour in every form - intellectual or physical should become a fuller expression of creative effort and other human personality⁵.

The foremost objective of the FFYP was to reduce poverty⁶. The Plan recognised that it required an expansion of employment opportunities⁷ and that fulfilment of the national goals could not be attained through total reliance upon routine direction and control of employee-activities. The personnel strategy needed to be predicated upon a living philosophy which would provide the top management and management at the successive layers with their basic assumptions and values. The management at various tiers should orient itself within the environment in order to identify itself with and help achieve the programme and objectives of the nationalised industries. The desire and ability to undertake management responsibilities by the personnel who occupy the positions in the organisation structure is of fundamental importance⁸. Thus the top management needed to demonstrate willingness to undertake personnel responsibilities as a part of their total responsibilities. Awareness of this responsibility was reflected early almost with nationalisation. A British management consultancy firm was associated with the government's efforts in devising an organisational structure for

4 *Constitution, op. cit.*, Article 15.

5 *Ibid.*, Article 20 (2).

6 *FFYP, op. cit.* p. 9.

7 *Ibid.*

8 H.D. Koontz and Cyril J.O. Donnell, *Principles of Management*, (New York: McGraw Hill, 1964) 3rd ed. p. 468.

the nationalised industries. The reports⁹ of the firm contained recommendations on the organisational structure and introduction of modern methods of personnel management. The major personnel problems and needs were identified as under:

- (i) Undefined responsibility and overloading at the top management level of the corporation;
- (ii) Inadequate attention to forward planning and personnel policies and procedures;
- (iii) Lack of necessary skills, knowledge, experience and expertise on the part of the newly promoted managers and supervisors and dearth of experience personnel;
- (iv) Lack of personnel policies and procedures and those that existed tended to be elaborate and cumbersome.
- (v) Absence of a comprehensive government policy on labour matters resulting in ad-hocism, confusion and delays.¹⁰

A personnel strategy would necessitate the development of a strategic long term plan for personnel philosophy and practice, man power resources, recruitment and training, employment conditions, compensation, incentives, welfare and management of manpower. It was from such a plan that fuller participation in the strategic planning of the nationalised industries and development of short range tactical plans for attaining short targets without jeopardising longer term interests would be possible. A central direction in personnel policies was an obvious need for the nationalised industries.

Essentially there were very great human and personnel problems in the nationalised industries. The problems required urgent solution without which efficient performance, higher productivity and generation of surplus were not feasible. The government demonstrated a broad awareness of the human problems in the Constitution and in the documents

9 Various reports prepared by P.A. Management Consultants Ltd., London on behalf of the Government of Bangladesh. See Bibliography.

10 Consultants, *Final Report*, *op. cit.*, p. 113.

like the FFYP and the Industrial Investment Policy 1972-73. But in coming to deal with the specific issues in the nationalised industries the government apparently could not grasp the complexity of the problems. It took a long time, for example to appreciate the fact that there was a need for specialised handling of the personnel problems in the nationalised industries¹¹. The sheer dimension of work involved in the management of the work force, huge number of multifarious categories of the employees involved called for a judicious man-management and job allocations for a harmonious industrial relations and optimum utilisation of manpower. Arrangements on "fire-fighting" basis seemed only to have facilitated political interferences in the nationalised industries. The problems were compounded because of bitter factionalism and rivalries as already mentioned within and among the various components of the vast work force in the nationalised industries. The size of the work forces in the nationalised industries fluctuated around a number of 350,000 during the FFYP period. The estimated manpower position in the nationalised industries is given below:

TABLE 22

Estimated Manpower Position in the Nationalised Industries 1973-1978¹²

Year	Estimated number of manpower employed
1973-74	353,600
1974-75	335,700
1975-76	339,900
1976-77	347,200
1977-78	355,500

11 P.A. Management Consultants in their report on the Adamjee Jute Mills, the largest jute mill in the world employing nearly 23,000 persons, noted that no special function existed within Adamjees to handle the personnel problems. Government of Bangladesh, P.A. Management Consultants, *Report on the Adamjee Jute Mills*, (London: 1975), Ch. 6, p. 73.

12 For sources, basis of estimate and break-up, see Appendices.

The government grappled with the problems through setting up several committees and commissions to examine the personnel system in the government including the nationalised sector. Besides the Administrative and Services Reorganisation Committee (hereafter ASRC), the National Pay Commission (hereafter NPC), the Industrial Workers' Wages Commission (hereafter IWWC) and the Industrial Workers' Wages and Productivity Commission (hereafter IWWPC) were set up to make suitable recommendations for the wage structure of industries in the public sector compatible with the recommendations of the other commissions. However, prevailing confusions, uncertainties and controversies could not be resolved. Instead the suggested pay structure had given fillip to corruption and brain drain in a situation of acute shortage of managerial and technical talents¹³. Interservices and group rivalries within the personnel systems intensified¹⁴. The IWWC envisaged that its recommendations were to remain broadly valid for the FFYP period and the NPC based its recommendations hoping almost naively that the price level would remain relatively stable. The recommendations of the IWWPC on the other hand could hardly keep pace with the unprecedented rise in prices and intense agitations and industrial unrest in the sector corporations prevailed in late 1978¹⁵.

Constant fiddling with the public administration system by the successive governments did not help to build a sound edifice of personnel

13 Maheshwari, *op. cit.*

14 The services were divided on the basis of those who left Bangladesh territory to join the government in exile, those who stayed within Bangladesh territory during the Liberation War and those who had to be repatriated from Pakistan or fled from Pakistan. See Jahan, *Bangabandhu*, *op. cit.* In addition, the services were factionalised on the basis of earlier belonging to provincial government or central government; among generalists, professionalists, and technical personnel.

15 See *The New Nation*, 30 July and 3 September 1978.

management in the nationalised industries. The recommendations of the FFYP about raising and training of political cadres created uncertainty in the first instance. Although the FFYP recognised¹⁶ the role of the civil servants in carrying out the development programme it characterised a government functionary as a skilled worker a few among whom could be motivated. The political cadres were envisaged as catalytic agents and as watch dogs for misappropriation of public money and materials¹⁷. Raising a parallel hierarchy was however, unlikely to ensure improvement in administration¹⁸. The abortive attempt to introduce a new and untried concept in administration seemed to have eroded the morale of the personnel traditionally in government administration. Induction of army personnel in the nationalised industries further reduced the career opportunities of the personnel usually associated with the management of the nationalised industries.

Managerial Personnel

The nationalised industries in Bangladesh had to draw on its available managerial ability from divergent sources¹⁹. These persons,

16 FFYP, *op. cit.* pp. 4-5.

17 *Ibid.*, pp. 7-8.

18 Maheshwari, *op. cit.*

19 The first 11 Chairmen of the Sector Corporations brought the following experiences to their jobs:

Executive in private sector	3
Executive in public sector	3
Both public and private	2
Civil Service background	3

In contrast, in September, 1978 all of nine incumbent chairmen of the corporations in the nationalised industries had public service background.

Civil Service background	4
Service in government technical department	3
Public Corporations	2

(Continued over)

technical or non-technical as they came from both public and private sector had brought different kinds of experiences. The positions left vacant by the non-local managerial and technical personnel had to be filled up by comparatively less qualified and less experienced people from the lower level. Persons having civil or military service background were inducted into the nationalised sector. As the public enterprises formed part of the government system and of the civil service structure this did not seem incongruous. Some of the Bengali owners of the nationalised jute and cotton mills were also called upon to provide managerial services to nationalised enterprises²⁰. This diversity of experience brought together in a quick regrouping section did not result in integrating them into a new and dynamic management tradition. The "promotees" caused inconsistent decisions and improper handling of the situations. The civil servants although coming from the same government system did not have uniform approach to the problems of management. Nor they were afforded adequate opportunity to develop a common outlook of expertise through a long enough tenure in the nationalised industries. Retention of the former owners in managerial

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- 19 (Continued) Information on 27 servicing Chairmen and Directors of the boards of corporations in nationalised industries revealed the following on the sources of their recruitment:

Government Departments	10
Public Corporations	6
Defence Services	1
Contract Services (Private)	9
Academician	1

- 20 In asking the previous owners of the nationalised enterprises to discharge managerial responsibility as before, Bangladesh followed the pattern set earlier in some East European countries. In Bangladesh, under the Nationalisation Order, Boards of Directors of the Bengali owned units were asked, to begin with, to continue discharging their managerial functions. The original intention was to dissolve these boards immediately on nationalisation and only to ask the Chief Executive of the enterprises to stay on with the job. A sudden vacuum could have very adverse effects on production. See Sobhan, *Nationalisation, op. cit.*, p. 193.

positions even though only for a short period of time helped some of them to siphon off resources. This also raised doubts about the socialistic intentions of the government in the mind of the workers.

Being a large and complex organisation, it was necessary for the nationalised industries to dovetail the personnel policies with the plans for expansion so that mobility could be achieved from the older to the newer plants without impairing the performance of the former. This would entail provision of training to acquire skills and scope for upward mobility to deserving talent. The successive governments, however, did not take a well-conceived action to build up a management framework. The government seemed apathetic to the concept of a service based on real organisational needs²¹. Various committees and commissions apparently worked under an illusion of a unified service structure which ultimately amounted to a disintegration of an established government service structure without replacing the same by a viable alternative. The nationalised industries in particular, went almost without attention in the dispensations about the services structures in the reports of the committees and the commissions. The government seemed little aware of the advantages of an organised system for managing top positions in the nationalised industries in an economy which had charted a planned course of development for itself and of the numerous pulls and pressures particular to each individual nationalised industry. The government failed to devise a delivery system staffed with adequate reservoir of entrepreneurial or managerial resources of the right kind for the nationalised industries as for the government itself.

21 As Chandy Found in the Indian context. See K.T. Chandy, *Managerial Personnel for Public Enterprises*", *The Indian Journal of Public Administration*, Vol. 10 (4) (October-December, 1964) pp. 601-7.

In recent times there is a growing realisation in some of the public enterprise system in the developing countries about the advantages of constituting a generalist managerial service on national basis²². It is argued that such a national service for the public enterprise system would bring in prestige to the jobs in public enterprises, introduce competitive richness in the managerial content and make a diversity of experience available to the enterprises. However, no attempt was made in Bangladesh to constitute a well structured entrepreneurial-cum-managerial cadre either within the ambit of the national civil services or exclusively for the nationalised industries. On the contrary, the Industrial Management Services (hereafter IMS) constituted in 1973 was abolished in 1978. The IMS was created to provide an uninterrupted flow of managerial personnel trained in socialist economic management and with this end in view the first batch of two hundred officers were recruited through the Bangladesh Public Service Commissions and later trained in some East European countries. The arguments for abolition of the IMS cadre within five years of its inception were held as follows:

- (i) The IMS cadre did not prove workable;
- (ii) A centrally constituted cadre like IMS was conceptually incompatible with the government policy of autonomy and decentralisation for the corporations and disinvestment of many of the nationalised industrial enterprises;
- (iii) Appointment of personnel other than the Chairmen and the Directors of the Corporation Boards were not envisaged in the Industrial Nationalisation Order.

The faults and failures of the Industrial Management Pool²³ in

22 See for example, P.K. Basu, *Managerial Civil Service in Asia*, (Kuala Lumpur: Asian Centre for Development Administration, 1976).

23 See H.K. Paranjape, *The Industrial Management Pool: An Administrative Experiment*, (New Delhi: The Indian Institute of Public Administration, 1976). Also see Government of India, *Administrative Reforms Commission, Report of the Study Team on Personnel Administration*, (New Delhi: Manager Government of India Press, 1967), pp. 201-6.

India and the criticism levelled against the Economic Pool²⁴ in Pakistan were used to destroy the nascent IMS cadre in Bangladesh which was orphaned almost from the very beginning of its birth. Like the Industrial Management Pool in India which had to tread its way in an environment lacking a seriousness on the part of the government to operate²⁵ the IMS faced hostile reception from the beginning. The facade of its encadrement was out of tune with the prevailing attitude toward all cadre affiliations²⁶ of government services. It was alleged, not without foundation, that there was no real attempt to recruit quality personnel for the IMS cadre and that it was a manoeuvre to win over a large section of the freedom fighters. Lack of definite service conditions, allegedly questionable method of their selection and attitude of other employees in the public corporations towards the IMS recruits helped to create an unfavourable image of them.

The arguments levelled against the IMS cadre and the principles underlying them need a scrutiny. It may be as well argued that if the IMS was found to be not workable it was more because of the unwillingness on the part of the ruling elite to make them operate successfully. The survival of a nationally constituted career service would add to the problems of implementation of the disinvestment policy of the military regime because of the need to find for such officers some suitable alternative employment. According to the terms of disinvestment the buyers of the enterprises disinvested were not bound to accept the

24 The "Economic Pool" as a new service was constituted by the Pakistani administration in order to meet the specialised needs of economic ministries - finance, commerce and industries.

25 Ajit M. Bannerjee, "Managerial Personnel for Public Enterprise", *The Indian Journal of Public Administration*, Vol. 10 (1964), pp. 513-25.

26 Awami League Manifesto in 1970 advocated abolition of the cadres in the civil services.

previous employees. Furthermore, in the context of an acute shortage in managerial talents, the absence of a national pool of managerial resources gave way to spoils system. It also requires to be weighed if individual corporations would be able to attract quality personnel as against regularly constituted government services which in the developing countries like Bangladesh offer better prospects in terms of prestige and security of tenure. The qualified technical personnel already in the nationalised industries could be absorbed in such a central pool which would raise their morale and motivation. In addition, industrial nationalisation order was not something sacrosanct which could not be amended to accommodate the changed needs and the continuance of a national managerial service would not necessarily comprise the avowed decentralisation policy. Under the above circumstances, abolition of the IMS cadre may be interpreted as an ancillary step to implement the disinvestment programme of the government. This is reinforced from the fact that by the end of the FFYP the nationalised industries contained a substantial number of technically qualified personnel. One can discern several factors responsible for this phenomenon. Firstly, the Sector Corporations inherited a large number of technical-managerial personnel from the PIDC. Secondly, in the wake of Liberation and the socialistic predilections of the Awami League Government employment opportunities provided by the private sector was severely limited and public sector became virtually the only employer for the technically qualified persons. Thirdly, delay in formulating a national personnel policy by the government and absence of recruitment in the line of the recruitment made by Pakistani administration before Liberation made the nationalised industries the main employment provider for such persons. Investigations conducted in

some corporations regarding the qualifications and training of technical and managerial personnel clearly indicated the possibility of developing a national reservoir of such talents²⁷. Instead reticence of the successive governments about a firm personnel policy for the nationalised industries, poor pay and benefits, constant criticism against the nationalised industries and above all government's unwillingness to dispel doubts about the continued existence of the nationalised industries through defining firmly the operational limits of both the public and private sectors eroded the morale of the managerial and technical personnel in the nationalised industries. As a result the nationalised industries became a training ground of managerial and technical executives for the expanding private sector within the country after the fall of the Awami League Government and for the Middle East employment markets outside.

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- 27 Examination of the bio-data of 388 executives in BJMC, BSFIC, BCIC and BSFIC (officers with ranks of enterprise managers and above including divisional heads in the corporation head offices) indicated the following qualification contents:

Ph.D.	9
Master's degree including A.C.A. & Ll.B.	104
Bachelor degrees	135
Degree in Engineering	62
Undergraduate (pre-university level)	44
Secondary School Certificate	28
Unspecified	6
Total	388

Nearly 50 per cent of the BJMC executives had foreign diploma or training in jute technology mostly in U.K. In BCIC 113 of 190 executives whose qualifications were collected had foreign training of one sort or other. In BSFIC 13 out of 52 executives surveyed did have some parts of their training in a Western country. Nearly all the executives have had exposure to management development courses in the national training institutes like the Management Development Centre, National Institute of Public Administration or the Institute of Business Administration.

Non-managerial Personnel

A large number of non-managerial and technical positions became vacant after Liberation. Nationalisation brought in its train fundamental changes in the recruitment and selection processes. During private management the top positions in the policy and decision making process were held by the owners themselves. The general manager of the enterprises was the trusted person of the owners with wide range of powers and authority for recruitment and selection of employees. This method of recruitment was discarded after nationalisation. But initially all the posts were filled up by promotions largely of persons without basic academic or technical qualifications even though there were plenty of technical diploma holders or science graduates outside the industries. Later it became difficult to screen out the unqualified persons and to make arrangement for training for those surviving the screening.

Recruitment and selection processes in the nationalised industries however became subject to inordinate delays. The nationalisation statute and the incorporating statutes providing authority to the corporations for recruitment, promotion, deputation, dismissal etc., of their employees. The corporations were authorised to make regulations regarding the terms and conditions of the services of their employees subject to approval of the government. The recruitment of the officers and staff of the corporations were also brought within the purview of the Public Service Commissions²⁸ on the same basis as the government

28 Bangladesh Public Service Commissions were established according to the constitutional provisions as envisaged in Articles 137, 138, 139 140 and 141. The functions of a Public Service Commission were, among other things, "to conduct tests and examinations for the selection of suitable persons for appointment to the service of the Republic" of Bangladesh. *Constitutions, op. cit.* Articles 137-141 pp. 56-8.

employees. The statutory intentions seemed to have been to confer full powers in respect of personnel management in the nationalised industries. Except the Chairmen and Directors of the Boards who were appointed by the government on terms and conditions determined by it²⁹ a corporation could appoint such officers, consultants, advisors, auditors and employees as it might consider necessary. In practice, the powers of the corporations were severely constrained. One of the factors responsible for such limitations was the built-in obsession within the government apparatus which relied excessively on procedures of cross-references³⁰.

Induction of civil servants into the nationalised industries became an involved process as a result of the above system of cross-references. Acute shortage of personnel in different layers in the nationalised industries necessitated a practice of secondment of civil service personnel to the nationalised industries. The corporation unable to find the required personnel would notify the administrative ministry which in turn would approach the Establishment Division - the central personnel agency of the government. Filling the vacancy of a hitherto non-existent post-technical or non-technical would release a stream of actions - multiple cross-references or a number of interministerial consultations at the appropriate levels. The job sought to be created must be legitimized, and given a place in the organisation structure. Needed additional financial commitment would have to be authenticated by the Ministry of Finance. The services and recruitment

29 *Industrial Nationalisation Order, op.cit.*, Article 12 (2).

30 While examining India's administrative system Appleby noted that it was "a system whereby everybody is responsible for everything before anything is done". See "Digest of Reports", *The Indian Journal of Public Administration*, Vol. 2 (1956), pp. 276-85.

rule would need vetting from the Ministry of Law. On issues having relevance to labour situation the Ministry of Labour might have to be consulted. When civil servants were appointed on secondment they retained their civil service privileges although serving in the corporations. The corporations could not alter the terms and conditions of service of those seconded. Nor could they take extreme disciplinary action against them. The government retained the power to regulate the personnel administration of the corporation employees as well as the government employees seconded to the corporations³¹.

The Cabinet Division Guidelines made an attempt to give effect to the provisions that existed in the statutes but which needed to be re-emphasized. Thus the Guidelines stressed the fact that while the government would continue to make appointment of Chairmen and Directors the corporation would have the authority to recruit, appoint and promote other officials and employees. In this, the corporations were to be governed by the rules and regulations framed by the corporations and approved by the government.

Development of Skills

An efficient work force calls for a comprehensive training and development programme for both managerial and technical personnel. The FFYP pointed out the need for an intensive management development programme specially designed for the nationalised sector³². In the context of the desired socialist transformation in the early phase of nationalisation it seems that a motivational approach was more appropriate.

31 Amendment of Article 6 (2) of "The Bangladesh Industrial Enterprises (Nationalisation) Order, 1972", see *The Bangladesh Gazette Extraordinary*, 27 November 1972.

32 FFYP, *op. cit.*, pp. 254-5.

Such an approach holds that the basic assumption of training is the creation of a change in the individual - a change in the direction which is in the best interests of the organisation. A programme of management development in the nationalised industries would therefore, need to impart both management skill as well as socialist values to the new recruits and the managers inherited from the pre-nationalisation set-up. The FFYP suggested a programme of management development both within the corporation and in specialised training institutions like the Management Development Centre, the Industrial Relations Institute, Institute of Business Administration and the National Institute of Public Administration. Facilities provided in these institutions were limited as the facilities for management training in Bangladesh as a whole were modest.

The FFYP did not, however, suggest a comprehensive programme to develop management skills as it was being examined by the government separately. As an interim measure the Plan sought to recommend the creation of management cadres in all corporations and arrangements for on-the-job and in-service management training within the corporations. Special emphasis was to be given to socialist management. Trainers, trainees and corporation executives were to be sent to the socialist countries to study the socialist management systems³³. But there never existed adequate training facilities within the corporations³⁴. It was noted that the personnel shortage and the gap in efficiency could have been reduced with a planned and integrated training scheme³⁵.

33 *Ibid.*

34 See for example, *Report on BJIC, op. cit.*, Industries, *Textile Enquiry, op. cit.* and Prime Minister's Secretariat, *Report of the Prime Minister's Special Enquiry Team on Adamjee Jute Mills*, (Dacca, 1974) Unpublished p. 12.

35 *Ibid.*

Ironically however the IMS cadre was abolished by the Military regime in spite of the training imparted to the IMS officers in the socialist countries during the Awami League administration.

The ASRC³⁶ emphasized in its turn the need for training of the functionaries of the government and the nationalised industries. It called for an orientation programme for the senior civil servants in democratic values and methods and in socialism. It suggested for adequate institutional arrangements for training at different levels. A national level training academy was proposed. The corporations and enterprises were to assume responsibility for training of all others below the level of last direct entry as officers. The ASRC also recommended for setting up of a National Enterprises Training Council to design the entire training programme for entrants at the managerial level positions in the nationalised sector. In contrast, the PSC³⁷ seemed to have not emphasized the role of training as much as the ASRC. The PSC ruled out the suggestion for constituting career services in the public corporations. Instead it advocated a career development

36 The Administrative and Services Reorganisation Committee was appointed by the government in March, 1972. The tasks of the Committee were to consider the existing structure of various services, and amalgamation of all the civil services and also to determine the principles of integration of the personnel of the various services and the future recruitment policy and formulation of a comprehensive scheme for administrative organisation. All the six parts of the report were submitted by May, 1975.

37 The Pay and Services Commission was appointed in February, 1976 and was to recommend, "having regard to the fundamental objective of state policy for the establishment of a socialist system" a suitable service structure for the civil services and pay structure for the civil services, the employees of the autonomous and semi-autonomous bodies, statutory corporations, the Universities and nationalised enterprises among other things. The Commission submitted its full report in 1978 but a new national pay scale with 21 grades for all employees was earlier announced in July, 1977.

scheme for the managerial cadres in the public sector. Each public sector undertaking was to be encouraged to formulate and implement suitable career development schemes in which a phased programme of training at different levels was linked to a different ladders of promotion. The PSC did not elaborate how the fresh managerial entrants were to be trained. Earlier the recommendations of ASRC were never made public nor its recommendations on the aspects of training were implemented. The PSC did not make any concrete recommendations on a long term training policy. It had apparently not envisaged any long term managerial succession plan in the nationalised sector. The half-hearted recommendations of the reports of the ASRC and the PSC and lukewarm approach of the successive governments towards them did not help to clear the confusion prevailing around the personnel system in the nationalised industries without a firmly delineated career development programme. Building up of an inventory and reserve of managerial talents under such circumstances was bound to be frustrated.

As with the managerial personnel a tremendous training effort was needed for all other categories of personnel. The professional advisors³⁸ considered it essential in the crisis following large scale exodus of non-local skilled workers to concentrate on training minimum essential skills and knowledge to enable each worker to do his job efficiently. The standard of supervisors in the mills fell far short of requirements as most of them possessed little technical knowledge or supervisory skills. As with the operative a crash course was necessary for the supervisors to teach them basic technical essentials of the jobs which they supervised. The FFYP laid emphasis on development of skills through training, labour welfare, management development,

38 Consultants, *Report Adamjee Jute, op. cit.* p. 81.

labour management relationship, employment promotion and research in the fields of manpower and labour. Important programme included establishment and expansion of the technical training centres. But essentially labour and training according to the admission of the Planning Commission itself was accorded a low priority³⁹. There was little facility for training of the work force either within the enterprises or in a centrally based training centre for each corporation nor there was a separate training institute for the workers⁴⁰. Most of the workers learnt the trade just being on the job. There was no organised training system for the workers⁴¹. In the absence of an apprenticeship scheme in the enterprises the normal annual turnover of labour was met by the recruitment of inexperienced and untrained persons.

From the available evidence it is hard to suggest that there was an adequate appreciation in the government about the role of the skilled workers as vital inputs for industrial progress. On the other hand in the wake of Liberation unskilled labour assumed jobs of skilled workers and even clerical personnel were made technical supervisor and sent for training abroad⁴² while qualified candidates from the available technical institutes were not given fair opportunity. The planners realised that development of skills of labour force was important but the programme lacked a multisectoral perspective. Achievement in skill development

39 About lack of training facilities all reports agreed. See Bangladesh Bank, *Jute Industries*, *op. cit.*, p. 17; Prime Minister's Team Enquiry Adamjee Jute, *op. cit.*; Finance, *Report BJMC*, *op. cit.*; Industries, *Report Textile Enquiry*, *op. cit.*; Consultants, *Final Report*, *op. cit.* Consultants, *Report Adamjee*, *op. cit.* p.

40 FFYP, *op. cit.* p. 9.

41 Industries, *Textile Enquiry*, *op. cit.* p. 23.

42 *Ibid.*

fell far short of requirements and expectations.

National Wages Policy

A systematic and acceptable structure of incentives for both workers and other employees was of paramount importance to the government in power since it faced the task of formulating a pay and wage structure

having regard to the fundamental objective of the state policy for the establishment of a socialist system⁴³.

Determination of compensation for the employees before pre-Liberation days was essentially an administrative process. The various pay plans⁴⁴ before the Liberation were somewhat rudimentary and colonial in origin. Separate pay policies, pay structure and pay administration existed for different categories of employees. Wide proliferation and overlapping were flagrant⁴⁵. Several problems were, however, associated with determining a suitable incentive structure in terms of monetary and material benefits in the nationalised industries. The problems were:

43 See *The Bangladesh Gazette Extraordinary*, 21 July 1972 and 20 February 1976 containing government Resolutions appointing respectively the National Pay Commission and the National Pay and Services Commission.

44 Some of the Commissions engaged in formulation of pay plans before 1971 were:

- (i) Islington Commission (Royal Commission on the Public Service in India, 1917);
- (ii) Lee Commission on the Superior Civil Service in India;
- (iii) Varadachariar Commission, 1946-47;
- (iv) Das Commission;
- (v) Muneer Pay Commission, 1948;
- (vi) Pay and Services Commission, 1959;
- (vii) Mumtaz Hassan Commission, 1970.

45 Government of Bangladesh, National Pay Commission, *Report Vol. I*, (Dacca: Government Press, 1973), pp. 14-5.

- (i) Formulation of an overall compensation policy;
- (ii) Determination of a basic remuneration rate for the nationalised industries as a whole;
- (iii) Determination of the specific remuneration rates or its range for each job according to job classification;
- (iv) Prevailing rates in the private sector and the provision of the Minimum Wages Act;
- (v) Standard of living and cost thereof;
- (vi) Ability of the nationalised industries to pay the wage/salary/remuneration bills.

The NPC set up in 1972 was asked to recommend a national pay structure embracing the entire public sector employees other than industrial workers keeping in view the cost of living, resources of the government, disparity between incomes, requirement of efficiency, equity and incentives etc.⁴⁶. Its recommendations on the ten national grades and scales were, however, partially implemented in view of changes in objective conditions and difficulties arising out of reducing a large number of pay scales in a few national scales⁴⁷. Implementation of the recommendations of the NPC in respect of the remaining grades was discontinued since February, 1976 and the new PSC was constituted. As recommended by the PSC twenty New National Pay Scales were announced which became effective from July, 1977 for the employees of the nationalised enterprises excluding the industrial workers. The lowest pay was Taka 225 per month and the highest was Taka 3000 against Taka 2000 fixed earlier according to the recommendations of the NPC. There were other benefits such as medical and housing facilities.

The IWWC submitted its report on wage structure of the industrial workers in September, 1973 with recommendations for 33 wage scales

46 *Resolution National Pay Commission, op. cit.*

47 *Resolution Pay and Services Commission, op. cit.*

for the workers in the nationalised sector. The Commission felt that an industrial worker should receive compensation at about 10 per cent more than a public office employee of the lowest grade recommended by the ASRC. The IWWPC was constituted in April, 1976 to review the wage structure in the "context of the present cost of living and the productivity of the industrial enterprise" and to recommend incentive measures to enhance labour productivity. The report of the IWWPC submitted to the government in July, 1978 contained recommendations, broadly related to two aspects: (i) wage structure including fringe benefits and of relating wages to productivity and (ii) major problems affecting industrial productivity and industrial viability such as jute and cotton policies, project planning and implementation and industrial model and technology. The IWWPC recommended the minimum basic wage of Taka 270 with total remuneration of Taka 404 per month for workers in the industrial areas and Taka 381 for workers in the non-industrial areas. The minimum basic wage recommended by the IWWC earlier was Taka 215 per month with additional amounts as fringe benefits like house rent, conveyance and medical allowances. Festival bonus equivalent to one month's basic wage was allowed by both the commissions.

The principles emphasized in the terms of references of the various commissions took note of the various social, economic and psychological factors. As a virtual monopoly employer in the modern industries sector, the pay and wages policy of the government had crucial implications for employment and income distribution in the economy⁴⁸. The social compulsions for constituting the respective commissions were (i) the need to reduce disparity between the highest

48 Recommendations of the IWWC directly affected 400,000 industrial workers in the public sector, NPC was responsible for determining salary and benefits of more than 650,600 employees in 1973.

and the lowest incomes in the society and (ii) the supply and demand in respect of different professions and occupations. The commissions had to be conscious of the need to attract and retain the talented and trained, professionally and technically qualified persons in the public sector and to provide for necessary incentives. The government on the other hand needed huge resources for reconstruction and rehabilitation of the economy and to take up future and current expansion programmes. In devising a national pay and wages policy the government had to take cognizance of the need for generation of surplus in every productive organisation for reinvestment. This was compelling since the usual resource base for the government was inelastic.

The NPC perceived the priorities under the circumstances as to provide a "living wage" for the lowest paid employees with minimum differentials in remuneration in various packages, to cushion the employees from acute inflation through providing essential commodities at a fair price, to give assistance in the form of environmental support like housing, health, conveyance and education and to share the hardship by those who could afford to do so. The pay plan of NPC was, therefore, formulated on the basis of a "livable rate of wage", social acceptability, standardisation of different tiers of administration into a minimum number of levels which would be functionally distinguishable, time scale, etc. It was assumed that patriotic consideration would motivate the highly competent people for whom the public sector might not be able to give full monetary compensation at international rates. The PSC took note of the facts that resource constraints severely limited the ability to raise pay and wages in step with the decline in the real income, that the employees were indeed receiving a subsistence level emoluments and that a living wage must be paid.

While taking note of the need to link up pay/wages with price, indexation of wages was not suggested. However a cost of living allowances at an unspecified rate when inflation exceeded 15 per cent were recommended. The IWWC like NPC based its recommendations on the wages structure on the assumption that this would remain valid only until June, 1978. The wage packets consisted of three elements, namely, (i) an assured supply of essential commodities at fair prices, (ii) cash wage and (iii) environmental supports in the form of housing, medical and transport facilities. After the minimum wage scale for an unskilled worker was fixed for various grades, wage differentials were also built up for each industry having regard for the nature of skill on a very broad basis such as, the qualification at entry points, the time taken for promotion and the rate of wage obtaining in the industry.

The objective situations prevailing in Bangladesh would suggest that the majority of the employees and workers in the nationalised industries as in all other public sector employment did not receive remuneration enough to give them a subsistence living. Resources available at the disposal of the government or within the capability of the nationalised industries to generate in the near future would continue to remain inadequate to sustain a meaningfully living package of remuneration. But pay and wage structure in the public sector could not afford to remain insulated from the same in the private sector and compatibility must be maintained especially at the professional and technical levels.

Incentives and Productivity

Both the wages commissions were asked to examine the use of financial incentives as stimulants to productivity and to recommend suitable incentives to increase productivity. In Bangladesh, an historically developed inconsistency was the payment of bonus to individual workers irrespective of productivity on the occasion of a religious festival. The commissions decided to state this ex-gratia payment as "festive bonus" which became, in fact, a part of the pay packages of the industrial workers. As the pre-determined bonus was regarded as part of the wages, the payment of festival bonus could not serve as incentive. Both the wages commissions, as a result, recommended various types of bonus such as basic wage and festival bonus, shift bonus and night shift allowance. The IWWPC introduced accelerated incentive wage system in its efforts to relate wages to productivity. Besides material incentives, other forms of incentives were also introduced. These were rewards, medals, publicity and other forms of good performance recognition at the level of corporation, enterprise, unit or even group. It was hoped that a feeling of participation would create a heightened impulse in everyone connected with the nationalised industries.

Various reports indicated that the incentive systems needed improvement. The Inquiry Committee on the Textile Industry found in December, 1976 that the prevailing incentive systems did not take individual merits of workers in actual production and performance into consideration⁴⁹. As a consequence it failed as a motivating factor.

49 Industries, *Textile Enquiry*, op. cit.

The festival bonus was fixed but the production incentive bonus must vary with production. All workers of the enterprises were entitled to both the bonuses in proportion to their pay. Production bonus was subject to achievement of production at a certain level and beyond. In this system an individual worker had little incentive to motivate him or boost up his morale. Prevailing system of bonus seemed to benefit the supervisory staff more than production workers. Percentage of bonus on total emoluments for non-production workers increased at a higher rate than production workers after nationalisation. The data below shows⁵⁰:

Percentage of Bonus on Total Emoluments

Workforce	Pre-nationalisation : Post-nationalisation	
Officers	5.50	: 11.48
Staff	7.50	: 12.79
Workers	8.86	: 14.97

It must be said, however, that the IWWC and IWWPC like the NPC and PSC helped to introduce some rationalisation in the pay and wage structure of the nationalised industries. Uniformity was brought into unwieldy range of wage packets under the previous management in the private sector. Dissimilarities in emoluments and fringe benefits could not altogether be abolished until the reports of the commissions were implemented in respect of wage and pay structures. Thus for example, the petroleum refinery had been paying compensations to workers which were far more generous in comparison to other enterprises requiring similar skills and efficiency⁵¹. By seeking to remove the inconsistencies

⁵⁰ *Ibid.*, pp. 24-5 and p. 44.

⁵¹ Personal visit to Eastern Refinery Limited, an enterprise with BPC and interview with the personnel officers of various corporations. The reports of IWWC noted the disparity in compensation and fringe benefits for the employees in different industries in 1973.

and inequities in pay structures the commissions reduced the possibility of discontent. In the end, however, the recommendations of the commissions failed to generate sufficient incentives in an environment of galloping inflation. Financial incentives failed to motivate the workforce to enhance productivity or inculcate a socialist consciousness in them.

Labour Welfare

The report of the IWWC pointed out that one way of improving motivation of the workforce would be an effective programme to improve its living and working conditions⁵². At the time of nationalisation there was no law providing for housing to industrial workers. Even where some enterprises provided accommodation to a minority of the workers the quality of accommodation was mostly unsatisfactory. There was no comprehensive social security legislation⁵³ and medical attention and maternity benefits were restricted barely to the limit prescribed in the Workmen's Compensation Act, 1923, the Maternity Benefit Act, 1939 and the Factory's Act 1965. Some employers provided medical treatment by way of setting up of dispensaries. In some cases, medical expenses were reimbursed to the workers. No satisfactory arrangement existed to supply foodstuffs and other daily necessities at reasonable prices. There was a statutory provision for canteens in the Factory's Act, 1965

52 Papers read at the National Seminar On Making Work More Human held at Dacca in December, 1976 provide excellent information on the situation obtaining in Bangladesh. See International Labour Office, Bangladesh, *Report National Seminar On Making Work More Human, Dacca: December 13-15 1976*. (Dacca, 1977).

53 On social security legislations for workers in Bangladesh see seminar papers read at the Seminar on Social Security and National Development, December 20-22 1976 Dacca. International Labour Office, Bangladesh, *Report Seminar on Social Security and National Development, Dacca 1978*).

but most of the canteens existed in name only. In certain cases a nominal allowance for transports was provided. Wage system followed in the public sector units presented a better picture but in private enterprises no definite system existed.

Reports of the two wages commissions contained recommendations for standardisation of fringe benefits and environmental supports like housing, medical treatment and transportation. The IWWC also recommended educational facilities, recreational arrangements, subsidised meals etc. Institutional arrangements on the line of the health insurance schemes were being contemplated pending free medical coverage to all people. The commissions mentioned the provisions for contributory provident funds, group insurance scheme, gratuity and pension scheme for the industrial workers. In practice inadequate attention was given to the welfare of the workers. The major constraint was the financial position of the nationalised industries. While housing problem for the workers and employees remained acute, some corporations were planning to construct multi-storied office buildings by imposing levies on the enterprises. On the other hand, even in the largest mills general physical condition and working environment or safety provisions were far below the desired level. It was difficult under such circumstances to keep up the morale of the workers and infuse in them a sense of pride in their work and in the enterprise.

The FFYP perceived labour welfare as a form of social investment with high returns in terms of social and economic benefits. It allocated a sum of Taka 277 million for labour welfare and training against a total investment of Taka 60 million during 25 years preceding the Liberation⁵⁴. The Plan emphasized the need for housing, sanitation

54 FFYP, *op. cit.* pp. 493 and 495.

and health care for the workers most of whom had come from the rural area. The Plan also envisaged facilities of recreation, education and skill development. Achievement was far short of target. This was, according to the Planning Commission's own admission, due to inadequate policy orientation, weak organisational set up, lack of initiative and drive on the part of the executing agencies and inadequate financial support⁵⁵.

Managerial Emoluments and Motivation

With nationalisation, management of the nationalised industries passed into the hands of the professional managers who were full time executives. The capitalist entrepreneur class was nearly eliminated from the large scale industrial sector. This was not unique. Even in a free enterprise society, divorce between ownership and management, participation of the industrial investors and financial institutions in providing increased input of capital and in adoption of improved technology combined to cause considerable displacement of the capitalist entrepreneurial class. However, in a Western capitalist society these executives receive high remunerations and generous facilities because of their expertise and experience and because they have no compensating gains similar to the owners. In the private sector, remuneration of the top executives is usually governed by the provisions of the Companies' Act. The approval of the government is required for remuneration payable to the chief executive who is usually called the managing director or whole time director. Such remuneration is also subject to certain ceiling (normally in percentage of net profits) specified in the Companies' Act. In India, public sector undertakings have been generally

55 TYP, *op. cit.*, p. 34.

set up as joint stock companies. Provisions regarding managerial remuneration are equally applicable to them. But the terms of appointment of Chief Executive of these public sector undertakings are determined by the government separately as also for other senior officials whose emoluments exceed certain limits⁵⁶. The persons for the government services in secondment to public sector undertakings usually draw their emoluments according to their own scale of pay in the government service. However, they are usually entitled to an additional deputation pay.

In Bangladesh, the highest monthly salary was fixed at Taka 2000 and no one under public employment, be it in the government departments or in the public sector enterprises, autonomous or semi-autonomous bodies was to receive an emolument more than this. It meant no pay differential for a civil servant if he is in secondment to a corporation in the nationalised sector. If he reached the highest ceiling the same pay would be drawn by him. If the incumbent had not reached the highest ceiling his salary would just be the same. Prior to formulation of the National Pay Scale the government employees on deputation to the public sector or autonomous organisations used to draw their pay according to their respective scales of pay and not according to the scales of pay of the organisation to which they were deputed. In many cases, resulting from this a civil service employee was drawing less than the pay entitlement of the post as per the organisation's own scales of pay. Generally, the pay scales in public enterprises and autonomous organisations have been better than the regular government

56 See Mohd Afzal and Raj K. Nigam, "Management Remuneration and Incentives in Public Sector Undertakings" in Raj K. Nigam ed. *Management of Public Sector in India*, (Bombay: Vora & Company 1971) p. 53.

services. The deputation allowance to which a government employee was previously entitled on secondment to other organisations was also discontinued. There were certain fringe benefits in the form of transport and housing facilities; but for a senior civil service personnel, these could hardly be any additional incentive. On the other side of the coin, it was alleged that implementation of the National Pay Scales had resulted in downgrading of almost all officers (and staff) who were direct employees of the enterprises and not on secondment from the government departments - in respect of their existing rank and status. This created a "simmering discontent" among the employees and lowered their efficiency and morale⁵⁷. The new pay scales devised by the PSC in 1977 were substantial improvement in absolute terms from those of the NPC in 1973 because of a continuous erosion in the real value of money since Liberation. But in the context of the initial low base of Taka 2000, this award could hardly be considered as sufficient material incentive for the highest professional competence in the country.

In Bangladesh, there were not many large scale industries in the private sector after Liberation. There was also no meaningful differential in the remuneration ranges of top executives in the public sector and government departments. Only comparison that might be realistic was in respect of the large private sector in trade, commercial and construction sector as they existed. The average initial pay of management staff in the private sector industries in Bangladesh was found to be Taka 1,451 per month⁵⁸. As against this, the NPC had recommended the starting pay of a fresh entrant for management level officers of Taka 475 per month with fringe benefit of Taka 145 per month at 1971-72

57 BSFIC, *Report 74-75, op. cit.* p. 31.

58 Government of Bangladesh, Cabinet Division, *Report of the Pay and Services Commission, Bangladesh 1977*, Vol I Part II (Dacca: Government Press, 1978), p. 57.

price level. The starting salary of the management level officers was Taka 450 and Taka 500 per month as early in 1965. If the remuneration was to have relevance to the cost of living index the initial remuneration of a fresh entrant needed to be fixed at Taka 2604 per month in 1978 and Taka 2907 in 1975. The initial pay of a fresh entrant was fixed at Taka 750 per month plus House Rent Allowance between 25-34 per cent of pay according to the location of posting, effective from July 1977. At the higher levels, the disparity in emoluments was far greater between the public and private sector and also between the pre-Liberation and post-Liberation level. The top most government executives drew generally a monthly salary of Taka 4000 before Liberation. After Liberation, it was fixed at Taka 2000 in 1973 and Taka 3000 in 1977. The cost of living index was 407 in 1975, 382 in 1977 and 441 in 1978 against the level of 100 in 1970⁵⁹.

Apart from the low salary which acted as a damper, proper incentives also seemed to be lacking. Ordinarily incentive for managerial personnel is provided by such main factors as his own stake in the destiny of the enterprise, in respect of a stable career in the undertaking, a feeling of accomplishment, recognition for good work etc. A study⁶⁰ in India which has nearly similar societal values as Bangladesh, showed that the managers regarded the "Feeling worthwhile accomplishment" as the most important to them. While the priority rating of different incentives depend on the personality of and the appraisal of values by the individual managerial personnel, the validity of incentives would seem to be indisputable. The requirement of material

59 See *Survey 1980, op. cit.* p. 270.

60 See Laxmi Narayan, *Managerial Compensation and Motivation in Public Enterprises* (New Delhi, Oxford & IBH Publishing Company, 1973).

incentives could have been relegated to a secondary importance by the top executives if the need for recognition or accomplishment could be otherwise fulfilled. Instead, rigid compartmentalisation in the nationalised sector severely restricted the promotion vistas for able managers and technicians. In addition, the post-liberation promotions were mostly made as a matter of course without evaluation⁶¹. This resulted in wide spread discontent among the management personnel. The incentive of a stable career was also disappearing specially during the Mujib regime. Although the Constitution provided that no person holding any civil post could be dismissed or removed or reduced in rank without a reasonable opportunity of being heard⁶² the Government of Bangladesh (Services) Order, 1972 widely known as the Presidential Order No. 9 of 1972 or simply as "P.O.9" empowered the government to remove any person from service without assigning any reason. There was also no scope of judicial redress for such action⁶³. Ostensibly promulgated out of national interest and

to reorganize the entire system of administration and to establish an administrative machinery which can effectively meet the urgent task of national reconstruction⁶⁴

the law was indiscriminately used by the Mujib Government to intimidate and coerce all employees in the government and public sector, autonomous and semi-autonomous organisations to subserve the ruling political elite. Immediately after Liberation, the industries were in the doldrums owing to dislocations caused during the war and it was quite possible to charge many of the managerial personnel with alleged corruption,

61 Finance, *Report BJMC, op. cit.*

62 *Constitution, op. cit.*, Article 135 (2).

63 *P.O.9 of 1972, op. cit.*

64 *Ibid.*

inefficiency or collaboration with the occupation forces. Coupled with the poor material incentives, insecurity, lack of recognition, absence of fulfilment in a sense of accomplishment, the prestige of the public services declined sharply after Liberation⁶⁵. The prevailing environment was hardly congenial to the growth of a dynamic entrepreneurial class in the nationalised industries.

The Credibility Gap

In the past, the goal of the trade union movement in Bangladesh seemed to be meaningful and comprehensive. In this it was not different from the rest of the Indian sub-continent. One section of the labour movement tended to be radical⁶⁶ in nature and intended to transform itself into a revolutionary movement. The other group continued to strive for development through constitutional means for the protection and advancement of the economic interest of the workers⁶⁷. The trade unions also took part with other segments of the society in the various movements against the discriminatory actions of the employers and the ruling regimes - against the British colonialism before 1947 and the neo-colonial dominance of the Pakistani capitalism after 1947. Thus the labour forces played significant role in the Liberation struggle.

65 See Syed Giasuddin Ahmed, *The Image of Public Service in Bangladesh A Survey of Attitudes Towards Public Service and Public Employees in Bangladesh* (Dacca: Centre for Administrative Studies, University of Dacca, 1975).

66 See for an analysis of the labour movement in Bangladesh in the light of Marxist ideas in Badruddin Umar and Shahriar Kabir, *Bangladeshe Marxbad O Shramik Andoloner Samasya* [in Bengali] (Dacca: Juba Prakashonee, 1978). Also see Kamruddin Ahmed, *Labour Movement in East Pakistan*, (Dacca: Progoti Publishers, 1967).

67 Shah Abdul Halim, *Trade Unions and Law in Bangladesh*, Unpublished paper (Dacca: 1978) Mr. Halim is a prominent labour leader in Bangladesh.

They spearheaded the resistance against Pakistani oppression, militarism and exploitation. Most of the workers, therefore, tended to think that nationalisation in the wake of liberation would end their previous sufferings and would usher in an era of plenty for them. But the production of the nationalised industries could not be reactivated to the pre-nationalisation level due to the dislocations caused during the Liberation War. The authoritarian attitude of management in the industries did not undergo a metamorphosis overnight into a more democratic outlook. Rather the undue favour and privileges to some, divide and rule strategy, exclusion of workers from decision making, the rule of convenience and anarchic condition prevailing in the various facets of management caused disappointment in the workers⁶⁸. The first and foremost requirement to establish rapport between labour and management in the nationalised industrial activities and to induce the workers to increase productivity was missing.

On the side of the labour force, no new orientation seemed to have taken place as the changed context called for. There was a need for responsible trade union. However, union alignments were based on regional considerations and political affiliations. Any group of workers of a factory, plant or industry or office could form a trade union. Registration of unions were also not obligatory. Trade unions formed at the level of an enterprise were not necessarily organised vertically on the basis of industries at the national level. The existing national federation unions of labour did not represent all units within an industry. A great deal of infighting and inter-union

68 Durgadas Bhattacharya, "Management of Nationalised Industries in Bangladesh", *The Business Review*, Vol. 1, (Dacca: December, 1972) pp. 89-97.

quarrels obtained. The existence of a number of trade unions affiliated directly or indirectly to the major political parties presented complexities. The trade union organisations which were associated with the parties in opposition to the ruling party or not belonging to the government party wished to obtain control of the workers' organisations in the nationalised enterprises with a view to exert political influence not only in industrial and economic matters but also on the general political affairs of the country. At the same time, the unions with affiliation with the ruling party tried to establish and exert influence in the undertaking where they had a good following and simultaneously wished to extend their influence where they did not have a majority following. They also brought political pressures on the management of the enterprise if need be. These currents and cross-currents in the various nationalised industries caused a great deal of disharmony amongst the general body of workers. In the absence of a formal channel of negotiating disputes and discussing problems concerning the industry as a whole, union leaders tended to use unofficial channels exploiting their personal contact with high political figures. In responding to the requests of the union leaders the political leaders appeared to have undermined the authority of management of industrial enterprises and management of the nationalised enterprises could not steer clear of political manoeuvring of the unions. Under such circumstances it was difficult for a constructively motivated union leadership to mobilise all workers to productive efforts. Instead the labour problem became a major problem in the wake of Liberation⁶⁹. Expectations rose very high without appreciating the economic realities of a

69 Finance, *Report BJMC, op. cit.* p. 31.

war devastated economy with very scant resources. Everyday at least one or two incidents of labour trouble would appear in the newspapers in 1972⁷⁰. There was a lack of discipline among the workers in general. There was a tendency to abstain from work on the slightest excuse. Labourers demonstrated negligence and did not even take appropriate care in handling machinery when they were irritated⁷¹. The workers showed indiscipline in all respects - timekeeping, concentration in work, general behaviour and respect for instructions from the supervisors⁷². The workers demanded wages that were simply beyond the capacity of the industries at the time. Delay in acceptance of demand often resulted in violence. Many unfounded claims of the years as far back as 1965 had to be reimbursed by the management under duress. In some cases, the management personnel became helpless and then tools in the hands of the labour⁷³. Simultaneously, the labour leaders extorted undue facilities for themselves from the mill managements. Houses, cars, telephones and other facilities were too liberally used by the labour leaders. They got paid without work and even without work attendance. A certain labour leader took possession of a wheat crushing mill. There were 23 ration shops in the name of various labour leaders within the Adamjee Jute Mill premises alone⁷⁴. The labour leaders occupied 412 out of 462 quarters in a government owned residential colony by use of sheer threats and intimidation. The

70 Shahid Uddin Ahmed, "A Critique of Industrial Management in Bangladesh", *The Business Review*, Vol. I (January-April, 1973), p. 69-91.

71 *Enquiry Adamjee Jute*, *op. cit.*

72 *Ibid.*

73 Finance, *Report BJMC*, *op. cit.*

74 *Enquiry Adamjee Jute*, *op. cit.*

supporters of labour leaders owned shops that were illegally constructed and which were to be later demolished. The dismissed workers on different charges had also to be reinstated under pressure from the labour leaders⁷⁵. There have been many instances when statutory requirements were thrown overboard by workers to get their demands accepted by management⁷⁶. The nationalised enterprises had to absorb a host of redundant labour. Employment of labour much in excess of requirement added a new dimension to the prevalent lawless atmosphere after Liberation. The surplus labour⁷⁷ without any work and under the leadership of irresponsible labour leaders indulged in political activities and agitations. They kept the atmosphere charged with tension and would not allow the management to get down to work and give attention to production and connected issues. In addition to the drain on resources for the redundant employments the expenditure also increased in the form of ad-hoc reliefs and payment of bonuses when most of the industries were incurring heavy losses. Workers were paid one month's wage ex-gratia soon after Liberation. Over and above the workers who had participated in the Liberation War or who had abstained from working in the mills during the military occupation were paid 9 months' wages.

75 *Ibid.*

76 Bangladesh Bank, *Study Jute*, *op. cit.*

77 Compared to 1969-70, the jute industry had approximately 20,500 surplus labour in 1973 involving an additional expenditure of Taka 65 million per annum at the existing rate of wage. The average number of workers per operating loom increased to 8.07 in September, 1973 from 6.60 in 1969-70. The number of excess workers in September, 1973 on this basis was worked out to be 29,600 and resulting annual payment on account of them was Taka 92.5 million. See Bangladesh Bank, *Study Jute*, *op. cit.*, p. 56; The Textile Inquiry Committee found 5959 number of labour in excess to requirement in the textile mills with additional cost of Taka 14.3 million in 1976.

Payment of advances on some pretext or other and extortion of money under coercion amounted to huge sums which had to be ultimately written off. While there was excess labour, some mills still had to pay overtime to the workers. There was apprehension of wide malpractices in this respect also and the management of the enterprises, the corporations or even the government could not make any firm move to gradually reduce the excess labour. Workers were dissatisfied with the new schedule of wages introduced in 1973. Price inflation further eroded the effect of real value of increase in money wages. Absence of a system of appropriate incentive payment and welfare measures, delay in implementing the proclaimed policy on workers' participation in management and lack of integrity and competence of some administrators combined to create a credibility gap in the mind of the worker. Some workers were also apprehensive about the concept of workers' participation in management which they deemed to be a surrender of the fundamental right of collective bargaining⁷⁸.

Despite the fact that rights of the industrial workers were duly provided in the Constitution and they were assured of a share of ownership and management, industrial disputes led to frequent closures of the mills. A recent study⁷⁹ has shown that although Bangladesh has been experiencing a deteriorating industrial disharmony since 1947, the post-nationalisation period has been characterised with relative higher magnitude of industrial conflict than any other period before Liberation. The protection of wages has been the single most dominant cause of industrial dispute since Liberation and close correspondence between the movement of real wages and extent of industrial conflict showed no

78 Interview with Shah Abdul Halim, Labour Leader, November, 1978.

79 Nuimuddin, *Industrial Conflict*, op. cit.

sign of weakening⁸⁰. While in the face of a very drastic fall in real wages the industrial disputes came to occur as a perfectly normal response by the workers, the old distrust of the management seemed to have persisted. The relationship between the enterprise management and the workers had to be maintained through invoking the use of State force. There was also a tendency of invoking the use of arms of law by the management against the labourers at every provocation⁸¹. This did not help to dissipate the mutual distrust, suspicion, doubt, fear and lack of understanding between the management and labour in the nationalised industries. The overall labour situation considerably improved by the end of 1975. The imposition of the Martial Law and the subsequent promulgation of the Industrial Relations Regulation Ordinance 1975⁸² made significant differences to the nature of the organisation in the large scale industries. The trade unions starved of leadership with the embargo on the non-workers from being members of the trade unions⁸³. Besides this, the important factor contributing to the relatively less industrial disharmony was the comparative price stability during 1975 and 1977. With price level rising in 1978 there were increasingly more signs of industrial unrest.

The traditional antagonism between labour and management could not be done away with as was envisaged by the policy planners in Bangladesh.

80 *Ibid.*

81 *Enquiry Adamjee Jute, op. cit.*

82 The Industrial Relations Ordinance, 1975 put several legal limitations. No new trade union could be registered, both in public and private sectors nor an election for determination of collective bargaining agent could be held, both in public and private sectors.

83 Interview with Shah Abdul Halim, Labour Leader. As per section 6 of the Industrial Relations (Regulation) Ordinance, 1975 the non-workers were debarred from becoming members or office-bearers of any trade union unless it was a federation of trade unions, both in public and private sectors.

The government being the owner of the nationalised industries was indeed the employer of the industrial workers. In the event of a dispute or clash of interests it can no longer hold the ring, it is in the ring as one of the contestants⁸⁴. The government admitted that the success of the industrial enterprises in the achievement of the national objectives depended to a large extent on the responses of the workers. It was also not unaware that a motivated labour force committed to raising productivity and sharing in the fruits of its efforts was an essential premise for nationalisation⁸⁵. The FFYP maintained that to realise this the contradictions between labour and capital needed to be eliminated by associating the workers in the management of their enterprises. But according to the admission of the Planning Commission itself this assumption was not fully realised⁸⁶. But more importantly, the government seemed to have been unable to recognize the psychological situation in which an average worker would view his employer "a remote incomprehensible abstraction" with the same indifference whether the ultimate authority rested with a capitalist owner or a state corporation⁸⁷. Thus to an individual worker no visible change had taken place in the aspects of his welfare as a result of nationalisation rather the situation deteriorated immediately after Liberation⁸⁸. High expectations by the workers in the wake of nationalisation and the absence of an immediate redress of their sufferings contributed a sense of apathy and disenchantment in the labour force.

84 J.A. Richardson, *An Introduction of Study of Industrial Relations* (London: George Allen & Unwin Ltd. 1965), p. 380.

85 FFYP, *op. cit.* p. 254.

86 *Ibid.*

87 Consultants, *Adamjee Jute Mills, op. cit.*

88 *Enquiry Adamjee Jute Mills, op. cit.*

The inherited distrust of management could not be allayed and the management of the nationalised industries was unable to bridge the gap of credibility by inspiring the patriotic impulses of the workers which had earlier motivated them to participate in the Liberation War.

Public Policy and Institutional Framework

Formulation of a national labour policy defining the relationship, mutual rights, obligations and responsibility of the workers and management would have helped bridge the gap. But this did not happen and a firm national policy on labour remained elusive through out the FFYP period. The existing policy and practices of organisations of workers into unions and of labour management relations were not conducive to the establishment of a sustained industrial harmony or to reach the avowed goal of socialism during the Mujib regime.

The difficulties in bridging the gap between labour and management instead became accentuated as there was a multiplicity of competing trade unions. The institutional and procedural framework for labour management relation in nationalised industries emanated from the right to work as guaranteed in the Constitution⁸⁹. The Constitution also provided for the right of every citizen to form associations or unions, subject to any reasonable restrictions imposed by law in the interests of morality or public order⁹⁰. The provisions of various laws regulating industrial relations have been made applicable to the employees in the nationalised industries as in the private sector. Thus for example, The Industrial Relations Ordinance, 1969 did confer on both the workers and the employers the right to establish their respective

89 *Constitution, op. cit.* Article 20.

90 *Ibid.*, Article 38.

trade unions and federations. In the case of multiple trade unions of workers in the same enterprise or industry the ordinance provided for determination of the Collective Bargaining Agent. For conciliation of labour disputes, government conciliation machinery existed under provisions of this Law. There were a number of labour courts to resolve labour disputes through award and decisions under provisions of this law and also a Labour Appellate Tribunal. In cases where no Collective Bargaining Agent existed or unable to function, the Industrial Relations (Regulation) Ordinance, 1975 conferred the authority to constitute Consultative Committees with equal representatives of the workers and the employees. Apart from the statutory arrangements, some voluntary instruments like the Code of Discipline and Industrial Trade Resolution applied to the industries and regulated employer-employee relationship. However genuine grievances of the workers went unattended in the absence of a forum of discussion between the workers and the management because in practice a firm direction of policy in the government was lacking. The government had prohibited strikes and lock-outs in all enterprises since 1975 under the Emergence Power Rules, 1975. At the same time, fresh election to determine the Collective Bargaining Agent could not be held as meeting in the open public places were restricted since August 1975. No new trade union could be registered without prior direction of the government. The government had also taken away the rights of certain categories of the employees in public sector enterprises under the Emergency Powers Rules, 1975. The employees of the public sector employees who could perform trade union activities were however debarred from collective bargaining in respect of wage, bonus, leave, medical allowance, house rent allowance and conveyance allowance. The scope of collective bargaining was also

limited due largely to fixation of wages and allowances of the industrial workers by the government on the basis of the recommendations of the various commissions and the promulgation of the State-owned manufacturing industrial workers (Terms and Conditions of Service) Act, 1974 and the Emergency Power Rules. It has been said that the trade union organisations become strong in large industries with larger capital investments and having important role with the economic life of the country.⁹¹ The scope of trade unionism and collective bargaining in Bangladesh nationalised industries however tended to be narrowed down despite the fact that the number of public sector enterprises increased. The large nationalised industries in Bangladesh could not become a good ground of trade unionism.

Workers' Participation in Management

In line with the official stand of the Awami League ruling elite on socialism, the Prime Minister declared on February 9, 1972 that

measures of nationalisation would be combined with new arrangements to ensure workers' participation in the management of industries.⁹²

The Planning Commission initially set up a committee to formulate a policy for workers' participation in management. The Cabinet decided in principle in June, 1972 that the workers would be allowed to participate in decision making process through their elected representatives. The role played by industrial labour class in the Liberation War and the subsequent radicalism and militancy which permeated the labour forces in Bangladesh made it imperative that measures were taken to

91 Modh Afzal, "Public Enterprises and Trade Unions" in Nigam, *op. cit.* p. 204.

92 Quoted in Rehman Sobhan and Muzaffar Ahmed, *Public Enterprise in an Intermediate Regime*, (Dacca: Bangladesh Institute of Development Studies) forthcoming.

establish industrial democracy.

The committee appointed by the Planning Commission recommended management Boards comprised of government and workers' representatives⁹³. Accordingly, two elected representatives of the workers were to sit on the five member management Boards of all enterprises. It was envisaged that the workers would be given a share in the profits. The Labour Minister declared:

There will be no conflict of interests among the workers and the owners. The Management Boards will resolve all related matters of efficient management of industries except those of wage structure and financial benefits which the government will directly control in accordance with the recommendations of the national wages board.⁹⁴

The policy remained, however, unimplemented. The Workers' participation in management did not materialise because the issues as to whether the trade union elected as bargaining agent should nominate the representatives of workers or whether they should be separately elected remained unresolved. Moreover, professional managers in the nationalised sector were yet far from being motivated or experienced. The workers themselves lacked a clear perception of their role in the changed context which was aggravated owing to their low level of education or experience.

In December, 1975 according to a modification in policy a consultative committee was provided in each enterprise with equal representation from workers and employers to examine workers' grievances and suggest remedial measures. Essentially these steps fell far short of introducing a workers' participation and in 1976 the Cabinet Division

93 *Ibid.*

94 *Shrama Neeti Gonoprojatanantree Bangladesh Sarkar* [in Bengali] (Labour Policy of the Government of Bangladesh) As per statement of Mr. Zahur Ahmed Choudhury, Minister for Labour and Social Welfare on 27.9.72.

Guidelines provided for Management/Enterprise Board as the "highest policy making body" at the enterprise level with representatives from the workers in the board⁹⁵. The Management/Enterprise Board was to "have complete control over the...personnel functions except those of top mill managers which were held by corporations".⁹⁶

The government's failure to declare a firm national labour policy during the First Plan period contributed towards making workers' participation in management of the nationalised industries elusive. The ad-hoc labour policies announced from time to time were branded as "retrogressive" and "anti-labour"⁹⁷. The absence of the right of the workers for collective bargaining and strike during both the Awami League and the military regime could not make workers' participation a practical instrument. As a result even as late as in October 1978 the exercise to formulate a national labour policy on the basis of tripartite consultations among the government, management and workers seemed pedantic. The tripartite consultative committee was still beset with the problems of identifying the extent and scope of workers participation in management at plant level, industries level, corporation level, national level, policy planning level etc.⁹⁸ This policy of procrastination only heightened the ambivalence of the government on the objective of achieving an industrial democracy. The regulation formulated in 1978 constituting the Enterprise Boards for the nationalised mills did not contain a scope to have workers'

95 Cabinet Division, *Guidelines*, op. cit., p. 10.

96 *Ibid.*

97 *The Holiday*, 15 October 1972; 7 December 1975 and 9 March 1980.

98 Interview with Mr. S.A. Ashraf, Labour Advisor, Ministry of Labour and Social Welfare, Government of Bangladesh in November, 1978. Also official papers in the ministry.

representatives in such boards⁹⁹. Greaves pointed out that

the concept of self-government in relation to nationalised industry does not connote absolute, arbitrary and exclusive authority to a junta of workers to impose their will by force.¹⁰⁰

However, the Bangladesh experience demonstrated that the ruling elites both belonging to the Awami League and the Military Administration were fearful of the workforce and resultantly reluctant to introduce democratic participation in industrial management. The Awami League followed a dubious policy so that smaller abandoned enterprises which were left outside the purview of nationalisation could be disposed of in favour of certain workers' co-operatives without ascertaining initial attempts to create a sense of community ownership. Similarly the Military Government while pursuing a vigorous policy of disinvestment of some of the nationalised enterprises did not sell a single enterprise to any workers' co-operative. It was alleged¹⁰¹ that while disinvesting some of the profitable enterprises to private entrepreneurs adequate attention was not paid to assess the value of assets and properties of such enterprises. Instead very liberal facilities in the form of part payment in nominal amount were provided to the private buyers. The government did not contemplate such transfers in favour of community ownership of workers as in Yugoslavia or China. But even the concept of democratic participation of workers in management was still far from implemented in practice. In not announcing a firm national labour policy both the governments demonstrated their reticence on the issues facing the nationalised industries. The hesitant steps

99 The BJMC Enterprise Boards Regulations, prepared in January 1978 was silent on the matter of workers' representatives in the Enterprise Boards to be constituted.

100 H.R.G. Greaves, *Democratic Participation and Public Enterprise* (London: The Athlone Press, 1964), p. 26.

101 See *The Holiday*, 13 July, 1980.

could only end up in results that were not to make the workers to be a purposeful, contributing and responsible force in increasing productivity and efficiency of the nationalised industries¹⁰².

Summary Observation

The nationalised industries had to face the dilemma to reconcile the demand of the rather ambivalent role as a model employer with the requirement of effective performance. In the absence of clarity in the objectives set by the government at the political level the policy planners could not be sure of the performance implications of the personnel practices. The existing system of recruitment, selection, appointment, promotion, education, training and career planning could not be moulded to the needs of the nationalised industries with a view to help coherent and smooth development for efficiency and productivity. The ability of the government simultaneously to remain a model employer and obtain some returns from its investment became tenuous.

It seems that different or at least some additional criteria were required to bear upon the problems of personnel management if some social perspectives different from the private sector with its emphasis on commercial motives are assumed involving the objective of nationalisation. The existing civil service was not adequate to meet the personal needs in the long run. The transplantation of civil service values and attitudes and rigidities and thwarting of autonomy

102 The "Labour Policy" was announced by the Minister of Labour and Industrial Welfare of the first elected government in Bangladesh after the military coup of August 1975 merely contained intentions for creating a "greater sense of responsibility among the workers" and of encouraging the "effective participation" in certain specified activities. See Government of Bangladesh, *Labour Policy*, (Dacca: Government Press, March, 1980), p. 4.

and initiative by government control created an atmosphere that resulted in a negation of pride and importance in the work despite it was in the public sector.

A basic malaise of the nationalised industries as in the governmental bureaucracy emanated from the absence of an appropriate reward system and the practice of inadequate penalty for bad work. There was not sufficient realisation about the need for fixing responsibility for results and also appraising results by objective criteria. The enterprise management had in practice scant authority allowing for flexibility in recruitment, appointment, promotion and disciplinary procedures. The enterprise management was uncertain if their action even if bonafide for betterment of the enterprise would be owned by the higher echelon.

Nationalisation was expected to bring about a transformation in the attitudes of the workers and the employees. It was hoped that public ownership would inculcate public service and team spirit and also "integrate and personify the entire authority" of such public ownership at the lower level of management. The aspirations to permeate in the lower ranks of the industry a radical change in outlook could not become a reality. It could hardly be said that nationalisation created a new professional spirit among the administrators and imbued them with the idea of public service - combining high responsibility demanded of the civil servants with the drive and initiative of businessmen. The attempt to build up administrative and political cadres committed to the avowed socialism and familiar with its philosophy, principles and methods proved abortive with the fall of the Awami League regime. The various issues in respect of motivation of the enterprise management so that they exercise initiative

and enterprise when maximisation of private or personal profit was not the cardinal consideration remained unresolved. An appropriate system of incentives that affect the managerial personnel and the operators at all levels could not be developed.

The government could neither view its role in industrial relations in terms of benevolent neutrality or non-intervention. The old values of industrial peace and economic freedom could not be supplanted by those of industrial efficiency and economic responsibility. These values were not sufficiently reflected in the efforts jointly made by the management of the nationalised industries and the industrial workers. If transformation of labour relations was one of the main objectives, nationalisation was hardly able to provide a way of solution to industrial conflicts. The government's avowed intention to institute patterns of workers' participation in management was also constrained by several forces. The process of industrialisation itself was conditioned by the kind of the development route, the characteristics of the ruling elite, the conflicts of culture the nature of economic constraints, the historical timing and the way the labour force itself was developed.

The declared intention of the Awami League Government to introduce the political cadres in the management of the nationalised industries was not congenial to development of a professional entrepreneurial-managerial class as a career service. Preoccupation of the military regime with disinvestment of the nationalised enterprises resulted in an indifference towards evolving a long term personnel policy in the industries. Aspects of long term career planning for the budding public sector managerial class was thus ignored. Along with this,

the government remained reticent as before on the question of a national labour policy or industrial democracy in the form of workers' participation in management. The government's stance of ad-hocism helpful though for gradual dismantling of the nationalised industries was a serious obstacle to evolving of an enduring manpower policy in the nationalised industries or for the public sector as a whole.

CHAPTER VII

ASSESSMENT AND CONCLUSIONS

Nationalisation and the nationalised industries in Bangladesh were influenced through the interactions of heterogeneous elements. The complexity of social factors resulted in ambivalence in the ruling elites, absence of clarity in objectives and criteria of performance for the nationalised industries and a lack of commitment on the part of the ruling elites for the success of nationalisation. This final chapter is an attempt to recapitulate the basic scenario of nationalisation of industries in Bangladesh through an analysis of some of the key problems and issues confronting the nationalised industries and an assessment of the nature and role of nationalisation in Bangladesh.

A : SOME PROBLEMS AND ISSUES

Uncertain Objectives

The dimension of the activities of the State and their perspectives have to be wider than those of the individuals as they concern national interests. The State policies as embodied in the Constitution, short and long run development plans and various economic policies bear the imprint of a multiplicity of objectives and attempt to resolve the conflicts of interest in the best possible manner. The nationalised industries as organs of the State are charged with a multiplicity of objectives - some of which may not be compatible with each other. A variety of purposes and nature of activities call for such diversity. In a situation when the objectives overlap or are mixed up between different types of activities criteria for operation and evaluation tend to become confused. Thus public utilities cannot be expected to

bear the same objectives of an import-substitution enterprise or of a plant belonging to basic industries group. Each industry can have its own objectives within the global area of the nationalised sector. Objectives of nationalisation and the nationalised industries are multidimensional. These have to be perceived as the concrete expressions of the needs of the society, who have direct or indirect interests in the growth and welfare of the nationalised industries. Indeed, the first step for an organisation is to lay down the objectives which provide direction, a framework and guidelines for performance of its functions and discharging its obligations. Objectives stated in clear terms facilitate the process of co-ordination and delegation and help evaluation. However, the aims and purposes of nationalisation are not always firmly delineated nor are the objectives of the nationalised industries clearly stated. Moreover, as Robson¹ pointed out, intended objectives at the time of nationalisation may change over a period of time. Even when public purpose is firmly established for a nationalisation programme the question as to who determines the objectives or sub-objectives remain to be answered. Thus in Britain the management of the nationalised industries were relieved of the responsibility for wider policy considerations as contained in the government's following declaration:

The government's objective is to secure the maximum social return on the capital invested while the industry's concern is properly with the financial return².

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- 1 W.A. Robson, "The Control of Nationalized Industries", *National Westminster Bank Quarterly Review*, (November 1977), pp.6-16.
 - 2 U.K. White Paper: *Nationalized Industries: A Review of Economic and Financial Objectives*, Cmnd 3437, H.M.S.O. 1967, Paragraph 14.

However, as Garner³ points out such a clear distinction between commercial objectives and social objectives seems too simplistic. Thus in Britain it was suggested that

nationalised industries should generally be expected to pursue a blend of social service, efficiency and financial objectives - objectives which can only be established satisfactorily through an in-depth dialogue between an individual nationalised industry and the government.⁴

Setting of objectives for nationalised industries have, in addition, institutional consequences⁵ such as equipping the government machinery or reorganising the nationalised enterprises and finally the question of political choice to be resolved by the Parliament if it exists or by the governing military elite. There are also technical problems involved in the establishment of objectives such as assumptions related to the objectives must be identified and so also the need for quantification of all objectives. These technical problems have to be resolved if worthwhile objectives are to be established.

Identification of objectives also becomes difficult since one must appreciate separately the broad national purposes of nationalisation and the short and long run objectives of the nationalised industries as a whole as well as in terms of individual enterprises.

Beacham stated that the nationalisation policies are

in fact compounded of an odd mixture of socialist theory, liberal expediency and political empiricism⁶.

3 Maurice R. Garner, "Role and Objectives of Public Enterprises" in *Performance Evaluation of Public Enterprises Report of a Seminar Organised by the Commonwealth Secretariat and the Institute of Development Management - Botswana, Lesotho, Swaziland, 3-7 April, 1978* (London: Commonwealth Secretariat), p. 44.

4 U.K. *A Study of U.K. Nationalized Industries*, (London: National Economic Development Office, Published by H.M.S.O.) 1976, p. 114.

5 Garner, *Public Enterprises*, *op. cit.* p. 46.

6 Beacham, *op. cit.*

The nationalised industries are expected to pursue socialist objectives and to run in the public interest on the one hand and to be efficient, cost conscious, profitable and flexible as private enterprise, on the other. The reconciliation of objectives presents formidable problems. In Bangladesh the broad national purpose of nationalisation was not stated in the nationalisation law. It simply mentioned in the preamble that it was "expedient" to nationalise. True, the Awami League ruling elite declared that the purpose of nationalisation was "to achieve the goals of socialism" and the "establishment of complete socialism" and to "bring revolutionary change in the industrial field". But ambiguity in the nationalisation law itself as to the objective of nationalisation led to consequences which were adverse in their effects on the organisation, management and operation of the nationalised industries. Once nationalisation was effected its declared socialist premises were gradually forgotten, first with the aberrations of socialism and finally, the unambiguous policy of the military regime to expand the private sector with gradual replacement of the public sector. In the quagmire of all the policy reversals it was difficult to perceive what the objectives of nationalisation really were.

Wu⁷ has suggested that like the broad national purpose, it is necessary to specify the objectives of the individual enterprises. In countries pursuing a development path in a planned framework the central planning machinery sets the objectives in the form of directives. The FFYP took note of declared socialist premises of nationalisation. The basic national objectives given in the FFYP was to reduce poverty.

7 Chi-Yuen Wu, "Public Enterprises as an Instrument of Development", *Journal of Administration Overseas*, Vol. 6 (1967), pp. 149-58.

This objective could be attained through increase in output and income, more equitable distribution of income and a high rate of savings and accumulation. Accordingly, the FFYP pointed out that

Clearly defined objectives must be set for each sector. Production targets, efficiency levels, cash surplus generation and other defined objectives should be spelt out for the corporations and by the corporations for the enterprises.⁸

In other words, the objectives set for the individual units were sought to be linked with first, the objectives for the nationalised industries and finally, with the national objectives and targets at the macro level. A host of factors were responsible for nationalisation. It was difficult to single out any particular determinant of nationalisation - whether ideological or otherwise. It was a result of complex interactions. This made it difficult to pinpoint the objectives of nationalisation and inhibited the decision on the priority in the range of objectives which in turn led to inflated targets resulting in non-fulfilment. But furthermore, performance could not be evaluated in the absence of clearly known objectives and their priorities.

Reticence About Criteria of Performance

The objectives themselves usually provide the criteria of performance and appraisal. But as suggested above the objectives have been inconclusively analysed and identified. Apart from ideology, the objectives seemed to shift in emphasis from social considerations at one end to commercial considerations at the other.

Idang⁹ has observed that it would be inappropriate to insist

⁸ FFYP, *op. cit.* p. 251.

⁹ G.I. Idang, "The Nigerian Public Enterprises as Instruments of Socio-economic policies: A Case Study of a Government Trading Company in the Cross River States of Nigeria" *Indian Journal of Public Administration*, Vol. 24 (October-December, 1978), pp. 999-1015.

that the nationalised industries should only seek profit or that only economic criteria should apply. On the other hand "social criteria" alone cannot be made the sole foundation of policies. The most relevant question, as Idang puts it, is

how far economic rationality can be introduced into the operations of the public enterprises without impairing the capacity to provide social services¹⁰.

Implicit in the above suggestion is certain incompatibility between social and commercial considerations for the operation of the nationalised industries. Indeed, Nove¹¹ has stated strongly that commercial operation of nationalised industries raises a host of problems which are swept under the carpet or ignored. Maniatis¹² on the other hand thinks that social considerations present no serious problem and in no way impede the application of commercial standards. In Britain in the absence of a clear guidance in the statutes governing the nationalised industries various Select Committees of the Parliament¹³ sought to identify the social, economic and financial obligations of the nationalised industries. It was opined that the nationalised industries should adhere to "business principles" and should not take account of the "public interest". A distinction was made between "commercial

10 *Ibid.*

11 Alec Nove, *Efficiency Criteria for Nationalized Industries*, (London: George Allen & Unwin, 1973) p. 132.

12 George C. Maniatis, "Social Calculus, Profitability and the Conduct of Public Corporations", *American Journal of Economics and Sociology*, Vol. 29, July, 1970, pp. 225-39.

13 See C.D. Foster, *Politics, Finance and the Role of Economics, An Essay on the Control of Public Enterprises*, (London: George Allen & Unwin, 1971) especially pp. 12-19; A.H. Hanson, *Parliament and Public Ownership*, London: Hansard Society, 1961, pp. 125-174; M.R. Garner, "The White Paper on the Nationalised Industries", *Public Administration*, Vol. 57 (1979), pp. 7-20.

interest" and the "national interest" of the government. Even if the public corporations operating the nationalised industries were themselves to take the "public interest" into account, a definition of the term "public interest" is elusive and it is difficult to apply as a consistent standard¹⁴. In practice a variety of obligations are still placed on the nationalised industries in the name of the "public interest". The social and economic obligations of the nationalised industries invariably have link with and are in response to the national objectives for industry as a whole. It seems, however, the general objectives of nationalisation and the nationalised industries are not adequate to develop a criteria for measuring the performance of the nationalised industries. In these circumstances it becomes necessary to ensure that narrower standards of performance are attained and the enterprises achieve a certain level of performance in their commercial operations, a level measured by financial results or by general standards of management and services.

However this kind of appraisal of performance is a complex and interrelated process. As Maniatis has observed, there is no unanimity regarding the meaning of the efficiency standard for the public enterprises¹⁵. Sidney Webb¹⁶ had recommended three methods to measure the efficiency of public enterprises namely, accurate measurement, complete publicity and continuous comparison. But the catalogue of difficulties¹⁷ for implementing these methods is formidable. Of various criteria

14 Parmanand Prasad, "Efficiency and its Evaluation in Public Enterprises" *Indian Journal of Public Administration*, Vol. 7 (1961) pp. 39-56.

15 George C. Maniatis, "Evaluation of Operative Efficiency in Italian Public Undertakings", *Economica Internazionale*, Vol. 20 (1967) pp. 111-119.

16 Sidney Webb, quoted in A.H. Hanson, "Report on the Reports - The Nationalized Industries 1950-51", *Public Administration*, Vol. 30 (1952), pp. 114-30.

17 Prasad, *op. cit.*

advocated "the most easily and obviously applied" according to Paranjape¹⁸, is the profitability of the enterprise. In addition, the rate of return on investment, surplus in public enterprise, minimisation of costs, achievement of production targets, supply of foreign exchange especially for the developing countries have been suggested. If there is conflict between the different criteria it can be resolved through clearly laying down the priority between different objectives. Similarly, a large number of norms and standards might be provided for the purpose of evaluating efficiency within the various layers of the enterprises. In Bangladesh, no clear guideline was available on the criteria for performance evaluation of the nationalised industries. Awareness of the need for efficiency in the nationalised industries and evaluation of performance was discernible in the following statement in the FFYP:

...the efficiency of the Public Sector is critical for the success of the industrial sector programme¹⁹.

and

Absence of precise targets makes it difficult to evaluate performance, motivate workers and correct lapses"²⁰.

But beyond the above the FFYP did not identify any criterion for performance and evaluation in respect of the nationalised industries. According to Ahmad, capacity utilisation was used as the measure of efficiency for the nationalised industries in the FFYP²¹. The need to increase productive efficiency was emphasized in the wake of dislocations in

18 H.K. Paranjape, "Measurement of Management in the Public Sector" *Indian Journal of Public Administration*, Vol. VI, 1960, pp. 159-175.

19 FFYP, *op. cit.*, p. 250.

20 *Ibid.*, p. 251.

21 Q.K. Ahmad, *Nationalised Industries*, *op. cit.*

productive machinery caused during the Liberation War. But as Alamgir rightly observed, this could not remain as the only criterion over the long run²². While the Nationalisation Order remained silent on the matter, the Cabinet Division Guideline laid down that a public corporation vested with nationalised industries was

to operate on commercial consideration, having due regard to national interests, in the most efficient and economic manner; within the policy framework and guidance given by the Government.²³

and that

Commercial potentials and economic viability shall be the primary considerations in deciding the operational policy.²⁴

The prescription laid down in the Cabinet Division Guideline was actually an exercise in semantics. One tended to get lost in the cobweb of such terms as "commercial consideration", "national interest" "most efficient manner" and "the policy framework and guidance given by the Government". Each of these phrases needed explanation and if possible quantification to arrive at a meaningful conclusion in performance evaluation. The Cabinet Guidelines did not provide a clue and one is confounded more with contraventions than adherence to the Guidelines.

The FFYP set a target for nationalised industries to generate a surplus but this was as a means of augmenting the domestic resources for the Plan. It was not a consciously set performance criterion. Although the FFYP envisaged that "all existing projects in the public sector" would have to "guarantee" a fixed return of 7.5 per cent of the original investment, it failed to provide a conceptual framework

22 Q.K. Ahmad, *Nationalised Industries*, op. cit.

23 Alamgir, *Nationalised Industries*, op. cit.

24 Cabinet, *Guidelines*, op. cit.

of performance criteria in the nationalised industries. In the absence of a legislative process for most of the period under study the parliamentary committees which could have otherwise indicated the criteria, did not materialise. Even if the parliamentary proceedings were not suspended it is doubtful if the parliamentarians would have taken as much pains. The records of parliamentary discussions in Bangladesh do not indicate a keenness on the part of the legislators to probe the problems of the nationalised industries in depth.

The Bangladesh nationalised industries nevertheless have been subject to sharp criticism for their performance. The argument against the nationalised industries derived its strength largely from their failure to earn profits. But the objectives of public and private enterprises are different both in degree and in character. For a private enterprise, at least from the viewpoint of shareholders, profitability is a conclusive measure of performance. Public enterprises do, however, have to face the dilemma of commercial profitability and national profitability. They are bound by a host of objectives which are not necessarily their own as enterprises. Moreover, if profitability was to be a measure of performance, profitability and inefficiency are not always mutually exclusive. Efficiency is also needed to be judged by other criteria such as labour productivity, cost reduction, machine efficiency, realisation of production targets or reduction of wastages. A comparable analysis of public and private enterprises which was often sought would have been liable to be prejudiced by the fact that private sector was also nurtured by the government and various public sector institutions and the private sector received hidden subsidies in the name of promotion. On the other hand, public sector had to live with elements of avoidable costs,

tied aid and imposed consultancy. In addition, private sector was not subject to the same degree of government control and supervision. It was also doubtful if criterion of profit alone was meaningful in a scarcity market of the sort that Bangladesh was after the Liberation and when an enterprise abiding by government regulations earned less while the other enterprises could reap the scarcity premium through finding ways of subverting those regulations.

Clearly, in evaluating performance of the nationalised enterprises in a mixed economy²⁵, there is a need to be aware of the multiple objectives. A distinction has to be made between the private profits of the enterprise concerned and the social profits. It would be advisable to be aware of the social milieu, the economic constraints, the political environment, the administrative traditions and practices surrounding the operation of the nationalised industries. It has been said elsewhere that many public enterprises

generate a lot of external economies, the positive results of which are not reflected in their balance sheets but show up rather in the strengthened operational accounts of the private enterprises.²⁶

It was not, under the circumstances of Bangladesh nationalised industries, to be different. Hanson pointed out that to improve the overall performance of public enterprises, they should be

adequately financed, provided with experienced and qualified personnel, given a suitable organisational structure, ensured that they attain the maximum possible efficiency and effectiveness, and subjected to adequate (but not excessive) controls.²⁷

25 See for example, Pryke, *Public Enterprise*, op. cit.; also Hughes, *Mixed Economy*, op. cit.; Shanks, *Public Enterprise*, op. cit.; Jenkins, *Power*; Boyson, *Nationalisation*, op. cit.

26 Abotayde, quoted in Idang, *Nigerian Public Enterprise*, op. cit. p.1015.

27 A.H. Hanson, *Public Enterprise and Economic Development*, (London: Routledge & Kegan Paul, 1965), p. 204.

An objective assessment of the Bangladesh experience in nationalisation would, therefore, require probity and pragmatism and not just ideological predispositions or mere expediency. The economy of Bangladesh was in a critical stage of transition in which several issues and problems had to be faced and resolved. A unique combination of political, economic and social circumstances came to constitute a formidable challenge in a highly complex and difficult situation. A clear vision of the future society for Bangladesh remained elusive. The plan strategies became uncertain. Low per capita income inhibited expansion of domestic market despite an explosive rate of population growth. Simultaneously, poor natural resource endowments constrained enlarged production programme for the industries. Lack of firm decisions regarding the relative status of the public and private sectors in the economy helped to demoralise the managerial classes. Any attempt to evaluate rigourously the operation of the nationalised industries cannot ignore these factors.

The Maze of Economic Policies

The economy of Bangladesh remained virtually stagnant for various decades. It was frequently said that Bangladesh was not a viable economic unit. The economy was crippled and the economic situation was worse than at any time in the past at the time of Liberation. Economic activity declined and development was in fact, "reversed". The investment efforts during the two decades of planned development before Liberation proved to be inadequate to provide solution to the general or specific problems of the economy. In the lop-sided growth,

28 Report on the "Mission of High-Level United Nations' Consultants to Bangladesh", March-April, 1972 p. 4, quoted in IBRD, *Rural Economy*, *op. cit.* p. 17.

contribution of the agriculture sector towards GDP declined whereas industry regarded as the catalyst for accelerating economic growth remained nearly static²⁹. In agriculture, little progress was made towards adoption of modern technology and production remained at the mercy of nature. Public investment in irrigation and supply of inputs had been limited compared to the size of the problem. Private investment in agriculture was also meagre. The prevailing land tenure system, with a high degree of land concentration in non-cultivating strata of rural population, decremental trend in the average size of farm holdings which was already uneconomic and an increasing number of landless population, was a major obstacle to overcome. The successive governments shyed away from undertaking a meaningful land reform. Shortfall in agricultural production resulted in a need to import food-grains costing as much as 26 per cent of the import bills³⁰. Payments for national imports, on the other hand, exceeded nearly three times the amount earned through exports³¹. Balance of Payments position remained precarious. The situation was desperate in early 1972 when as a new born state Bangladesh found itself without any international reserve at all³². Public savings during the entire FFYP period had been actually negative³³. The level of subsidy in the economy was staggering. An obvious implication of negative public savings was

29 *Year Book 1979, op. cit.*, p. 237 Table 5.1.

30 *Review 1978, op. cit.* pp. 204-5, See Appendices.

31 *Ibid.*

32 *Year Book 1979, op. cit.* p. 317, Table 7.22.

33 According to a World Bank estimate the extent of negative public savings in Bangladesh was Taka 1115 million on average every year during 1973-77 period. The level of actual subsidy to the economy, according to the same estimate was Taka 15180 million during 1973-78 period. See *The Holiday*, 2 July, 1978.

that foreign aid not only financed the development budget but also met a good deal of current expenditures of the government. The government's difficulty in even meeting the financial obligations was apparent as only 24 per cent of public expenditures could be financed through mobilisation of domestic resources³⁴.

While agriculture sector failed to provide the base for capital accumulation, industrial development programme tended to become chronically dependent on foreign assistance. The large scale and modern industrial sector was essentially developed through tied-aid financing and State sponsored private capitalism during the pre-Liberation period. These industries were characterised by factor proportions that were not in tune with factor endowments, inappropriate technology, and under-utilised capacity. Much of this legacy was to be borne by the nationalised industries later. In all possible ways, a major proportion of foreign aid was utilised for sustaining the rather superficial industrial set-up which grew over the years. Machinery and accessories were procured through foreign aid from the same countries as such assistance might have originated from and thus aid given as loan was rerouted to the donor country³⁵. The fact that Bangladesh industries were not self-sustaining added to the dependence on a life line of imports. Almost every industry required spare parts and components which were to be imported. Furthermore, industry was not geared to the needs of agriculture or development in rural areas which could have opened up avenues of employment of the vast number of surplus labour in the rural areas and introduced modern technology. On the other hand, the cottage and small scale industries which constituted important

34 *Review* 1978, *op. cit.*, p. 21-2.

35 *The New Nation*, 21 January, 1979.

adjuncts to the industrial structure and provided an alternative source of earnings and livelihood for a large number of rural population, continued to be obsessed with simple production technique and devoid of innovation, vigour and dynamism.

Dependency relationship with foreign donor countries was a root cause of economic stagnation. The chronic deficit in the balance of trade was met by large volume of foreign aid, grants and loans. The gap gradually widened because, among other things, the rate of increase of the prices of export commodities could not keep pace with the rise in import prices. An essential prescription of the donor agencies was the retention of a traditional agriculture and a limited growth of manufacturing sector oriented towards the needs of the urban consumers and dependent on capital-intensive borrowed technology. In addition, an estimated 16 per cent of foreign aid was repatriated to the donor countries as various consultancy fees and services rendered³⁶. The total debt service liability of Bangladesh went on increasing rapidly and constituted 10 per cent of total foreign exchange earnings in 1976-77 and 15.3 per cent the year next³⁷. Imports of regular industrial raw materials caused another drain of scarce resources. Usually the loans were tied requiring that the same be spent exclusively in the country or countries mentioned under the terms of agreement. The debt-servicing repayment of the principal as well as the interests was made from the slender hard currency earned from exports of primary and semi-manufactured products. The pattern of aid absorption in the form of food and

36 *The Holiday*, 26 November 1978; Estimate made by the Project Implementation Bureau of the Ministry of Planning.

37 Year-wise debt service liability of Bangladesh increased from U.S. \$17.50 million in 1973-74 to \$65 million in 1977-78 and \$81 million in 1978-79, *Seven Years of External Assistance to Bangladesh*, Government of Bangladesh, Ministry of Planning, (June 1978) pp. 37-8; *The New Nation*, 14 May, 1978.

commodity assistance accentuated the debt burden and failed to create necessary productive capacity for servicing debts and a viable base for self-sustaining economic growth. Steps taken to mobilise resources for debt servicing and reducing trade imbalances suffered from contradictions. In view of the shortage of essential commodities in the domestic market it was questionable as to what extent export of marginally surplus commodities could be advocated. Not much progress was made in respect of import-substitution industries either. Low level of industrialisation, under-utilisation of capacity and near stagnation in the other sectors of the economy left no option but to import certain essential commodities in the face of a huge trade gap.

Simultaneously, dependence on foreign aid could not hold much hope for the transition, transformation and development of the economy. The promises of self sufficiency under such a framework remained a delusion during the entire course of "planned development".

The problem of inflation haunted the economy and was perhaps the single most important crisis in post-1971 Bangladesh³⁸. Rise in prices were due among other things, to the influence of higher costs of imported commodities, increased flow of funds for development activities, high government expenditure, poorly regulated exports of some commodities resulting in scarcity in domestic markets, operation of the Wage Earners' Scheme, selling of import permits, import of non-productive consumer-oriented goods, liberal bank credits and higher internal procurement price of paddy. But most important causes were the increase in money supply as the government resorted to deficit financing, and decline in production, smuggling and exports of marginally

38 For Consumer Price Index 1970-1980 see Appendices, Table I based on *Survey 1980, op. cit.*, p. 270 & 273.

surplus commodities³⁹ aggravated the situation. There was no effective organisational arrangement for containing the price situation and ensuring the supply of essential commodities. Nor did the government have a definite price policy. High rates of unemployment and under-employment and abysmally low per capita income further deteriorated the below subsistence level of living conditions in a galloping inflationary situation. In the absence of mineral resources or such other raw materials which could possibly be exploited for economic and industrial development Bangladesh faced a gigantic task in nation building in the 1970's.

The operation and performance of the nationalised industries in Bangladesh were inevitably constrained by the various facets of the economic policies pursued and several hindrances to development imposed by the lack of natural endowments. Thus poverty in general and the lack of purchasing power stunted effective demand which not only inhibited an expansion of productive capacity but also led to under-utilisation of existing capacity in the nationalised industries. The avowed intention of reducing unemployment/underemployment could scarcely materialise. Need to give relief to consumers meant government imposed price control at the expense of the economics of production. Production activity was further hampered due to shortage of industrial raw materials, spare parts, machinery and chemicals as huge deficits in the balance of payments made foreign exchange extremely scarce. Inadequate international demand for the major items of exports - particularly jute goods, due to competition from synthetics and poor market promotion tended to force the nationalised industries to sell at depressed prices. In desperation to meet its balance of payments

39 *Price Stabilisation, op. cit. TYP, op. cit.*, p. 66; *White Paper on Economic Situation of Bangladesh*, Government of Bangladesh: President's Secretariat, September, 1975, 1975, p. 5.

obligations the government had to subsidize heavily the jute industries. The need for augmenting the international reserve position further forced the government to encourage directly or indirectly, a brain drain in the form of exports of skilled manpower resulting in a loss of efficiency in the industries in a situation when efficiency standard maintained was already low. Dependence on foreign aid resulted in imposed consultancy and imports from predetermined sources caused cost escalation. It also caused other bottlenecks such as the incompatibility of the imported spare parts and machinery. The exports and import policies, the fiscal policies and the industrial policies themselves as pursued by the government often proved inimical to the interests of the nationalised industries.

Lack of Clear Development Strategies

With political sovereignty the people hoped to transform their political, economic and social institutions in order to improve the material and cultural standard and to maximise the growth rate of the economy. In this, like any other people, the people of Bangladesh had had their preferences in certain values and ideologies. Undoubtedly, the modern phase of development in Bangladesh began with its association with the Western capitalist culture. But the exposure of Bangladesh to capitalism had, due to historical reasons taken place against a backdrop of political subjections and economic exploitation during both British and Pakistani periods. As an inevitable reaction, socialistic ideas and values germinated and the appeal of socialistic model of development was enhanced. The capitalist path of development became a suspect in popular mind. The conceptual framework of socialism to be practised in Bangladesh however remained hazy. Planning and development strategy

and economic policies were interpreted in terms of socialism even though there were pragmatic factors which could explain perhaps as much.

The declaration of socialism as one of the four pillars of the State by the Awami League, a party basically with capitalist orientation was itself ironical. Earlier during the pre-Liberation period its Six Point Formula was seen, notwithstanding the political implications, as a "magna carta" for the future industrial tycoons of Bangladesh⁴⁰. The party leaders' conception of socialism had no relation with the fundamental issues concerning the ownership of the means of production. Neither could the party live up to its promise of nationalisation of jute trade when saddled with power earlier during Pakistan period⁴¹. After Liberation nationalisation was asserted as steps towards socialist transformation. Because of its character and composition the Awami League from the very beginning was not equipped to implement a socialisation programme. There was no total mobilisation of resources nor were property relations abolished or drastically altered. The Constitution merely categorised three types of property in broadest terms. The political leadership continued to remain with the Awami League which had abiding interests in rentier property, commercial capitalism and other financially rewarding private pursuits. The management of the state undertakings continued to remain with professional managers, technocrats and bureaucrats, and workers' participation in management was absent. A lack of emphasis on agriculture could easily be discerned in the policies of the Awami League. In an economy where agriculture constituted the major part, mobilisation of resources could not be complete without taking meaningful efforts in agriculture. But

40 *The Holiday*, 3 April 1966.

41 The Awami League.-United Front Party had promised nationalisation of jute trade in 1954. *Supra.*, Introduction.

the policies of the Awami League tended to retain the traditional structure in agriculture and shyed away from introducing collectivisation and co-operatives in the field. Inadequate mobilisation of resources resulted in unhealthy dependence on foreign aid, thus frustrating the socialistic premises of the government. The proprietorship of the means of production is a criterion that provides unequivocally the possibility to differentiate the various socio-economic system⁴².

Csikos-Nagy made an estimate on the distribution of capital on a world scale between state, co-operative and private ownership. The order of magnitude established was:

TABLE 23

The Sectoral System of the World Economy⁴³

<u>Sector</u>	<u>Capitalist World</u>	<u>Socialist World</u>	<u>Developing Countries</u>
State Ownership	15	60	10
Co-operative Ownership	10	30	5
Private Ownership	75	10	85
	<hr/>	<hr/>	<hr/>
Total	100	100	100
	<hr/>	<hr/>	<hr/>

Based on sectoral composition of GDP the corresponding ratio in Bangladesh was estimated approximately at 18 for public ownership and 82 per cent for private ownership⁴⁴. Thus in terms of physical composition alone, the economy of Bangladesh was more capitalistic than socialistic.

Wilczynski⁴⁵ pointed out the characteristics of the socialist economic system as distinct from the capitalist system. Concentration of power in the working class, social ownership of the means of production including land, manufacturing industries, natural resources, banking, finance,

42 Bela Csikos-Nagy, *Socialist Economic Policy*, (London: Longman, 1973) p. 67.

43 *Ibid.*, p. 67.

44 Muzaffar, *Public Enterprise*, op.cit.

45 J. Wilczynski, *The Economics of Socialism*, (London: George Allen & Unwin, 1977, pp. 22-23.

and domestic and foreign trade; central economic planning with the market mechanism largely replaced by or at least supplemented with economic planning and finally, socially equitable distribution of national income with property/rentier incomes virtually abolished. The economic system prevalent in Bangladesh could not fully fit in with this model.

The constitutional goal of achieving socialism through parliamentary democracy was contradictory in many respects. Authority of the parliament itself was curbed due to the existence of a constitutional provision empowering the President to enact laws. Absolute majority in the parliament of one party and the undisputed charisma and authority of the Prime Minister Mujibur Rahman turned the parliament into a house of the mutes⁴⁶. The fundamental rights guaranteed in the constitution were restricted by condition that virtually negated the existence of such rights. The framers of the Constitution sought to emulate the Indian and British variety of democratic socialism. Because of the inner contradictions of the party in power this turned out to be deceptive. British socialism had its roots in distinctively British ideas and British institutions and was evolutionary⁴⁷. Socialism as embodied in the Indian constitution had behind it a long tradition of political process⁴⁸. Bangladesh had no such enduring tradition in

46 *The Holiday*, 13 October 1972.

47 Harold Wilson, *The Relevance of British Socialism*, (London: Weidenfeld & Nicolson, 1964).

48 Shankar Ghose, *Socialism and Communism in India*, (Bombay: Allied Publishers, 1971).

respect of socialist ideas⁴⁹. Even after the Liberation there were only a few academic and political discussions in Bangladesh on the implications of socialism or nationalisation⁵⁰. The Planning Commission sought to formulate the tasks in socialist reconstruction but essentially the planners had to work in an environment lacking "political consensus" and "without a firm political commitment". Under such circumstances in Bangladesh it was not possible to experience socialism, to use the words of Corrigan,

as a more collective, more egalitarian, more conscious transformation of circumstances and people.⁵¹

Planning and Nationalisation

Planning is organically linked with nationalisation. The emphasis placed by the government on planning and development becomes a ground for nationalisation. In an economy subjected to a comprehensive master plan, a large public sector and a good number of public enterprises are useful agents for attaining the plan objectives. As Katzarov⁵² pointed out, the most important factor in the national plan

49 See Franda, *Regional Politics*, op. cit.; Maniruzzaman, *Radical Politics*, op. cit.; Badruddin Umar, *Bangladeshe Communist Andoloner Shamahsya* [in Bengali] (Dacca: Mowla Brothers, 1976).

50 Academic discussion on socialism and nationalisation seems rare in Bangladesh. On socialism see Franda, op. cit., Maniruzzaman, *Radical op.cit.*, Anisur Rahman, *Socialist Development*, op. cit., On nationalisation Sobhan and Ahmad, *Public Enterprise*, op. cit.

51 P. Corrigan, "Review Article on Socialist Construction", *Journal of Contemporary Asia*, Vol. 6, 1977, pp. 477-487.

52 Katzarov, op. cit. p. 249.

for any nationalised economy is its extent; the plan influences the public sector and state agencies, whole of administration, state projects and undertakings as well as for individuals and corporations. Nationalisation thus provides "an excellent opportunity" for the formulation of a comprehensive industrial development plan in Bangladesh⁵³.

A definitive evaluation on the relationship of nationalisation and planning in Bangladesh at this point in time may, however, be precocious. The ideological foundation of a national plan has not been resolved nor can the Bangladesh economy be branded as "planned" in terms of socialist semantics. This, despite the fact that Bangladesh had a FFYP, a commitment to pursue its development goals in the framework of a twenty-year perspective plan and more than a decade of planning experience before. The FFYP failed to outline a precise purpose in planning by way of suggesting direct measures. The plan proposals did not emanate from any deeply held ideological convictions. As has been shown the plan proposals were heterogeneous, contradictory and far from perceptive of the objective situation⁵⁴. As Lewis mentioned about British planning: it was not coolly calculated, finely drawn socialist blueprint - it was plain democratic muddling⁵⁵.

Nationalisation on a very extended front of large and various sizes of industries added the problem of economic responsibility to the responsibility of the political state. Under nationalisation the entire industry becomes a single unit merging the problems of the firm

53 Alamgir, *Nationalised Industries*, op. cit.

54 Panel on TYP, op. cit.

55 B.W. Lewis, *British Planning and Nationalization*, (New York: The Twentieth Century Fund, 1952), p. 276.

with the problems of the economy. The economic responsibility of the State tends to be more easily identified in nationalisation. Nationalisation becomes a more confident and direct display of precise purpose of planning.

Musolf sought to examine the importance of national planning as a criterion for relating public ownership to national development⁵⁶.

Ehlich attempted an evaluation of the relationship between planning and nationalisation⁵⁷. The answers to be sought were:

- (a) how closely the plans were pursued for nationalisation?
- (b) how successful were the public corporations in realizing their yearly plans and overall objectives?
- (c) how helpful was the control over nationalised industries in achieving plans?

Performance of the nationalised industries could be quantified and assessed in terms of the FFYP targets. But the political issues involved in economic planning remained unresolved even after two major long term planning exercises in the form of the FFYP and the TYP were undertaken by the end of 1978. Resulting ambiguity was not congenial to the plans for implementation of nationalisation programme. The FFYP suffered from inner contradictions and the position taken by the planners were often anomalous. While the FFYP talked about socialism, its heavy reliance on external aid belied two of the essential tenets of socialism - self-reliance and mobilisation of domestic resources. The plan programmes and policies in agricultural and industrial sectors echoed in many respects the earlier capitalism-oriented Pakistan period plans. Nor the military regime could resolve

56 L.D. Musolf, "Public Enterprise and Economic Planning", *George Washington Law Review*, Vol. 35 (1966), pp. 362-77.

57 H.B. Ehlich, *Planning Under Nationalization: British Theory Plan and Practice*, Unpublished Ph.D. Thesis, Rutgers University, 1956.

the fundamental issues of long term economic planning. It sought to confront the economic issues with mere ad-hoc policies. The set of measures that was initiated by the military rulers could not have hoped to change the status quo. In the absence of a political process no national conviction on important issues emerged or could be discerned. The framers of the TYP urged for political decision for long term planning - the Second Five Year Plan (SFYP) and the 20-year Perspective Plan. However, if the FFYP was a soliloquy on the possibility of a democratic transition to socialism in Bangladesh, the TYP was an expression of utter bewilderment as the military rulers on their part remained silent on major economic issues. Rationale for framing and launching a two year plan was stated as to make room for a breathing space for clear thinking to enable a transition to a long term perspective plan from 1980 onwards. Instead of clearing the vision the TYP remained virtually an extension of the FFYP in so far as the objectives and priorities or strategies were concerned⁵⁸. It followed the same conventional and bureaucratic and technocratic planning⁵⁹. There were, as before, strong elements of contingencies and the same heavy dependence on foreign aid despite the oft-repeated desire and declarations of self-reliance. The TYP could not, in the absence of specific political guidelines, firmly or even at least vaguely deliberate on issues such as the public versus private sector, controversies about nationalisation, denationalisation and disinvestment, foreign aid, land reforms, modernisation and transformation of the agriculture sector. Instead, the TYP added to the already existing confusions by virtue of its vague stance on the public sector and the hesitant support extended

58 *Panel on TYP, op. cit.*

59 *Ibid.*

towards it. Dependent on foreign assistance the TYP had to succumb to the free enterprise lobby both national and international. It was ironical that the TYP envisaged a development programme which contained a public sector component of 84 per cent in the industrial field despite its lack of faith in public ownership.

Public and Private Sectors

The debate over the role of the private sector versus the public sector agitated the scene throughout the First Plan period. As a result of nationalisation, the share of the private sector in the industrial economy in terms of ownership of fixed assets in the modern industrial sector dwindled to 12.1 per cent from 58.2 per cent in 1969-70⁶⁰. In spite of a sizeable public sector in transport, finance and foreign trade, private ownership was predominant in agriculture sector accounting for 60 per cent of value added; transport and construction, domestic trade in raw jute; wholesale and retail trade; indenting business, imports, tea industry which included considerable British interests and in small and cottage industries. The upper strata of the urban middle classes suffered due to nationalisation but the surplus farmers and the commercial traders discovered that they could still congeal their position and make capitalistic advances. These were the elements which sought to keep the debate on the public versus private sector open from the very beginning of nationalisation in Bangladesh when the issue seemed resolved once for all.

The arguments against a dominance of the private sector in industry stemmed from the fact that the meagre Bengali "big"

60 Sobhan and Ahmad, *Public Enterprise*, op. cit.

entrepreneurship was the result of a "neo-colonial policy" during the Pakistani administration. The government functioned as a "wet nurse" and the private sector had to be nurtured into good health on tonics prepared by the Ministry of Industries. Mackey examined the thesis that private investment was the key to economic well being and concluded that due to organised pressures from big business the government succumbed in resorting to the policy of stimulating private investment⁶¹. This policy of stimulating private investment by the government under pressure increased the monopoly power of large corporations, weakened the relative position of small business, and led to a misallocation of resources in the economy. The industrial process in Bangladesh seems to be a literal exposition of this thesis. In the context of agricultural character and surplus population in the economy such government stimulations to private sector would have been meaningful if directed to small and cottage industries. However as Dittullio has shown the government during Pakistan period did not regard small industries as an important vehicle to further economic growth and development in spite of the fact that small manufacturing units tend to employ labour intensive technologies⁶².

Having been already deprived of their ownership of industrial assets, to which they had made scant contribution whether in terms of investment or entrepreneurial acumen, a section of the Bengali middle class mounted a concerted campaign so that pre-Liberation policy of growth by inducement and stimulation to the private sector was restored.

61 M.C. Mackey, Jr., *Stimulation of Private Investment by Government*, Unpublished Ph.D. Thesis, University of Illinois, 1955.

62 Kathleen Ann Dittullio, *The Role of Small Industries in the Political Economy of Pakistan*, Unpublished Ph.D. Thesis, Syracuse University, 1972.

During the Awami League regime when the public posture of the government on socialism and nationalisation had not eroded and popular sentiments still ran high on socialism and nationalisation the free enterprise lobby kept a low profile and proceeded discreetly through the modus operandi of petitions for more incentives to facilitate private investment. The military regime was receptive to the private sector lobby and advocated "flourishing of the sector"⁶³. Attuned to careful nurturing by the government the Bengali entrepreneurs did not develop into an efficient and driving class and were unwilling to set up new enterprises for which there was ample scope outside the reserved list for the public sector. In addition to the abandoned units which were intended to be disinvested almost from the time of their take-over by the Awami League Government, advocates of the private sector were openly demanding "disinvestment" of the enterprises placed under the nationalised sector. Afterwards, denationalisation was explicitly demanded in respect of jute and cotton textile units previously owned by the Bengali owners.

Bangladesh had in its economy elements of both private and public sectors. In the process of developing and diversifying the economy, it might be necessary to seek a balanced proportion of the two sectors. But neither the amalgam of socialist principles nor of mixed economy was allowed to coagulate. Their elements kept on changing. According to the public posture of the Awami League Government it was both a policy postulate and policy instrument to make the public sector dominant in the economy. But it also sought to combine the virtues of

63 *The Bangladesh Times*, 31 August 1979 Speech of Industries Minister Mr. Jamaluddin Ahmed before a meeting of businessmen organised by the Federation of Bangladesh Chamber of Commerce & Industry.

both socialist and free enterprise economy. The nationalisation programme demonstrated this paradox. In certain sectors private enterprises were excluded but in others they could coexist with the public enterprise. The private sector had thus a wide area open to it to invest in and demonstrate its enterprise. Opportunities were provided in the form of disinvestment of absentee/abandoned enterprises which were not nationalised. Finances were available at the first instance from compensation money and lending and equity support and even the basis of deferred payment. The ideological assumptions of nationalisation, on the other hand, were to allow private sector to function only during the transition period towards socialism when public sector would be expanded and socialist cadres with political commitment and managerial skills developed. The contradictions in nationalisation policy inhibited declaration of an industrial policy in an atmosphere of fast accumulation of private wealth. As a result hardly any investment took place in industry in private sector during the Awami League administration. The goal of socialism within the framework of a partial nationalisation and in the absence of an industrial policy defining the role of the public and the private sectors created a stalemate in industrial investment. Private enterprise was moribund in the industrial sector.

The military regime attempted to revive the private sector. The government declared its intention of pursuing its policy of mixed economy while retaining the nationalisation policy with emphasis of development of the public sector side by side with providing policy and institutional supports to the private sector. However, the large scale disinvestment of enterprises from the nationalised sector virtually meant that the government was aiming at "reduction of the public sector

and expansion of the private sector"⁶⁴. Thus the attitude of the military regime has been double-faced. While it accepted the responsibility of the nationalised industries, it pursued a disinvestment policy to undo it in the name of creating proper environment for the private sector when there was no dearth of scope in industrial expansion outside the reserve sector. This tended only to strengthen the argument of the supporters of the public sector that the Bengali private enterprise was yet to acquire maturity. They were unwilling to explore new fields and their entrepreneurial agility was limited to operating a running and profitable unit handed over to them by the government with ancillary facilities and incentives provided. It was, therefore, argued that the Bengali private sector could not be relied upon as the main vehicle, to carry the burden of industrial development. The attitude of the private entrepreneurs was evident from the fact that the main threads of their arguments consisted in giving the nationalised industries a bad name and offering the good tidings that the transfer of the nationalised enterprises to the private sector would bring forth. Their thrust was negative since their interest lay solely in reprivatization so that they would not have to take the hard course. According to the advocates of the private sector all pioneering activities were to be undertaken by the government and after the project attained viability ought to be transferred to the private sector. Meanwhile the private sector would run the enterprises reprivatized from the public sector. Obviously, disinvestment and private sector were made synonymous and the difference between the concepts of denationalisation and disinvestment was conveniently

64 *The Holiday*, 10 July 1977 Speech of Presidential Advisor for the Ministry of Commerce.

ignored both by the private sector and also by a susceptible military government.

The military regime failed like the Awami League before it to work out any coherent policy to determine the role and function of the public and the private sector in the economy of social justice as envisaged by them. By the end of the FFYP period private sector lobby became insistent in their demand to limit the scope of the public sector although the vast field of small and medium industries and rural industrialisation programme were in moribund condition due to the lack of attention of potential entrepreneurs. Instead the private sector lobby called upon the government "to have fresh look at the relative roles of public and private sectors". It was argued that the social, political and religious feelings of the people did overwhelmingly support the free enterprise⁶⁵. The military regime maintained their indecisive stance on the issues. General Ziaur Rahman declared that the Second Five Year Plan which was in the process of preparation would define the role of the two sectors with the objective of coordinated growth of public and private sectors⁶⁶. Meanwhile continuance of disinvestment of nationalised enterprises eroded the morale of the public sector management and contributed towards the loss of vitality and efficiency in the nationalised sector.

65 *The Bangladesh Times*, 31 August, 1979.

66 *Ibid.*

B : SOME CONCLUSIONS

The Nature of Nationalisation of Industries in Bangladesh

Nationalisation of industries in Bangladesh has come to consist of the following distinctive steps:

- (i) Expropriation by the State of private property;
- (ii) Take over by the State of enterprises abandoned by the aliens or the enemy;
- (iii) Transfer of existing enterprises in public sector to the State as the sole owner;
- (iv) Placing all the above categories of enterprises under public ownership vesting all proprietorship in the State;
- (v) Establishment of public corporations to run the nationalised enterprises;
- (vi) Pursuing a legal process for the purpose of giving effect to nationalisation.

The connotation of the term nationalisation did not differ in Bangladesh from most other countries - capitalist or socialist, Western or Eastern and developed or developing. Nationalisation in Bangladesh enabled expropriation and taking over of private properties as elsewhere. However, by providing for compulsory transfer of State sponsored public enterprises to the public corporations set up under nationalisation law rather than operating them under previous arrangements, an explicit recognition was given to the distinction between nationalised enterprises and other public enterprises. Nationalisation as a concept is often distorted by confusing the differences between government enterprises and nationalised ventures. In Bangladesh, one result of such incongruence was to consider disinvestment as synonymous with denationalisation. In India, for example, the usual practice is to brand all public enterprises as nationalised industries. This does not help to distinguish between the generic origins of public enterprises and thereby tend to ignore the implications of nationalisation

in expropriating private property as different from simply setting up a new public enterprise. Mixed enterprises jointly owned by the State and private sector with majority share-holdings belonging to the State are termed elsewhere like in Italy, India, Zambia and a host of other countries, as nationalised ventures. In Bangladesh with a single exception⁶⁷ shares and assets of all the nationalised enterprises vest in the State and there was no instance of a mixed enterprise in the nationalised industries although there was no bar to set up such types of enterprises in public sector.

Nationalisation in Bangladesh closely resembled Britain in matters of expropriation of private enterprises and their placement under public corporations to be managed by the latter. In Britain there was no omnibus nationalisation law for industries as in Bangladesh. Nationalisation laws were enacted from time to time to bring different industries under the ambit of the nationalised sector in Britain. But in Bangladesh nationalisation of industries was effected immediately upon the promulgation of the nationalisation law. Thus in Bangladesh nationalisation of industries was implemented in a single stroke where as in countries like Italy nationalisation took place gradually over a period of years through purchase of stocks of private enterprises by the State which eventually became the majority shareholder of such enterprises. In such cases it may be difficult to discern a conscious drive towards nationalisation as manifest in the nationalisation law in Bangladesh. In fact in terming such instances of buying up the

67 The shares of Burmah Oil Company held in Eastern Refinery Ltd. under Bangladesh Petroleum Corporation were returned in May 1977. See Eastern Refinery Ltd., *Annual Report 1977* (Chittagong: September, 1977).

stock of private companies as paranationalisation, Sadzikowski has effectively distinguished them as a class apart from nationalisation.

Nationalisation in Bangladesh was complete for some industries, partial for others and selective as a whole. Nationalisation of jute, cotton textile and sugar manufacturing enterprises was complete. There was no private enterprise in these industries. On the other hand there were several enterprises taken over from the abandoned category in particular which competed with the private sector enterprises. Certain industries under the reserved list for the public sector had enterprises only under the nationalised industries. These cases must be deemed as instances of complete nationalisation as no private enterprise existed in these industries e.g. fertiliser and cement. In cases such as safety matches, various chemicals and pharmaceuticals, food products nationalisation was partial since private enterprises existed or there was no bar for them to exist. Nationalisation was also selective in the sense that abandoned enterprises with assets more than Taka 2.5 million were only nationalised; the rest were earmarked for disinvestment to the private sector. Nationalisation of industries in Bangladesh mainly consisted of manufacturing enterprises with exception of gas, mineral exploration and development, and petroleum processing. Public utilities such as electricity and power, transport or water supply were fully or partially in the public sector but they were covered by separate laws and most of the enterprises were directly sponsored by the State except those taken over as abandoned enterprises from the private sector.

Nationalisation in Bangladesh seems to have been characterised, like many other developing countries, by the co-existence of several socio-economic formations and overlapping tendencies within its

development process. During the years of bitterness with Pakistan and the War of Liberation, ideological issues were subordinated to nationalist themes, the vision of society to the immediate aim of liberating the country from the unhappy association with Pakistan. During the euphoria of the Liberation struggle people were more likely to be moved by a sense of economic nationalism. It may, therefore, be asked if nationalisation was in response to this sense of economic nationalism. The fact that a large number of abandoned enterprises owned by nonlocals were taken over and nationalised raise the question if a desire for indigenisation of jobs and localisation of capital was equally observable along with the assertion of economic independence in the events preceding and following nationalisation in Bangladesh. In other words, was it a case of, what Johnson called a "nationalistic nationalisation"?⁶⁸ Nationalisation is a most effective strategy if economic nationalism is perceived in terms of national ownership of assets and control over economic activities. Nationalisation of key sectors means immediate national ownership and control of the "commanding heights" of the economy reducing the dependence on foreign countries for various strategic variables and thus forestalling a resurgent economic imperialism. However, it has often been asserted that far from being an anti-imperialist weapon nationalisation has tended to become a policy of support in the developing countries as in the developed countries. In Bangladesh not only was compensation paid to foreign shareholders of the nationalised enterprises but also British private investments in a major sector namely, the tea industry, were left outside the ambit

68 Johnson, *Economic Nationalism*, op. cit.

of nationalisation⁶⁹. In addition to favoured treatment meted out to British capitalism, compensation to foreign (but non-Pakistani) shareholders and even restoration of shares to a multinational corporation, there was utter dependence on foreign economic aid for development financing. These practices were in sharp contrast to professed goals of self-reliance and socialism in Bangladesh. As in the period of the pro-capitalistic Pakistan administration, so in independent Bangladesh, foreign-aid induced industrialisation led to introduction of policies that patronised private sector frequently at the cost of public sector in spite of the facade of some degree of planning and nationalisation. It appears that in Bangladesh economic nationalism was interpreted in terms of localisation of capitalism by supplanting foreign capital and control with that of the national middle class instead of a truly national ownership.

Nationalisation was ostensibly perceived by the Awami League regime as a step towards socialist economic transformation. In other words, the Awami League was attempting to follow a model of socialist industrialisation. Gregory has outlined such a model as a form of rapid and forced industrialisation that is directed by a central plan; characterised by the rapid decline of non-socialist sectors in the economy, high rates of capital accumulation and the marked predominance of the produced goods sector over the consumer goods sector⁷⁰. A

69 Tea industry in Bangladesh comprised approximately 1 per cent of manufacturing value-added and generated 4 per cent of the country's export earnings. British interests in tea industry produced 56 per cent of best Bangladesh teas on 47 per cent of its tea area in 1970. See Nuimuddin Choudhury, "A Social Cost Benefit Analysis of Tea Industry in Bangladesh", *Bangladesh Development Studies*, Vol. 3 1976, pp. 379-401.

70 Gregory, *Industrialization*, *op. cit.* pp. xix-xx.

socialist nationalisation would mean socialisation of all the basic needs of production which become the property of the entire people. The absence of private ownership of the means of production becomes the central feature of the society. Nationalisation of the modern sector of the economy and collectivisation of agriculture become inevitable⁷¹.

Public ownership of the means of production form the basis of the development of socialist relations of production, which are expressed in a new attitude to the means of production, in conscious labour discipline, cooperation in work, stimulation of the people's constructive activity and socialist emulation. The economic laws of capitalism would cease to operate. All the means of production, distribution and exchange become a component and integrated part of the single national economy on the basis of a single national plan and common aims.

The objective situation in Bangladesh during the period covered in this study would hardly reflect the conditions stated above. On the contrary the genesis and implementation of the nationalisation policy in Bangladesh manifestly indicate capitalistic traits even though in some ways it resembled a socialist programme. Essentially the middle class character of the political party launching the programme, lack of leadership and cadres suitable for the building up of the avowed socialism, a tendency to ignore the practical difficulties in implementation, failure to provide institutional supports, distorted priorities, absence of a strong and motivated working class party, retention of the property foundations of social relations in all spheres, piecemeal planning and nationalisation, and indifferent efforts to

71 In China for example, private land ownership in rural areas was eliminated within a few years of communist revolution. See Breth, *China, op. cit.* pp. 20-3.

mobilise domestic savings and inculcate self-reliance, and an excessive dependence on foreign aid all combined to prepare a seed bed which could not possibly germinate the Bangladesh industrial nationalisation programme into a socialist nationalisation. While nationalisation programme of the Awami League resulted in a virtual ban on private industrial investment, the economic policies and political expediency helped to accumulate vast private fortunes through various means some of which were dubious. The industrial policies of the Military Government reflected the increasing influence of the newly emerged and resuscitated industrial and commercial capitalist groups through the patronage of the Awami League. The military regime's strategy of providing generous incentive packages to private sector and infusion of private foreign capital by making relaxation of controls was rationalised in the name of efficiency⁷², productivity and self-reliance⁷³. By expanding the ideological framework broadly enough to accommodate its policies to the recommendations of the World Bank and the wishes of the donor countries the military regime's policy marked a shift to the right. This amounted to a reversal of the official Awami League strategy. But the policy of the military regime in promoting private sector through disinvestment and partial denationalisation seems to be more like a continuation of the nationalisation policy of the Awami League. The real objective of this nationalisation appears to be a localisation of capital in the hands of the Bengali middle classes and not the abolition or restriction of private capital in general. The Awami League policies

72 In the words of the TYP: "emphasis has been given on better capacity utilisation and higher operational efficiency", *TYP, op. cit.* p. 30.

73 TYP declared: "...spirit of self-reliance will be vigorously pursued" *Ibid.* p. 34.

created the opportunities for the accumulation of private capital and the military regime attempted to consolidate and expand the base of the private capital. Both regimes pursued their policies within the ambit of nationalisation. Disinvestment policy of the military regime may, therefore, be construed as an inevitable follow-up of the capitalist nationalisation policy of the Awami League. As Sadzikowski has stated nationalisation is often carried out in order to improve the existing socio-economic systems in the capitalist countries⁷⁴. In Bangladesh too, in spite of all rhetoric on socialism, nationalisation turned out to be a needed boost to the ailing private sector, first taking certain enterprises under public care followed by treatment, nursing and then rehabilitation and finally according them freedom.

Bangladesh was in a situation when its economy was mainly capitalistic with certain sectors of its economy nationalised and operated directly by the State. Both private sector and State owned and controlled sectors co-existed. In a country where socialist revolution occurs and consolidates itself under the leadership of a working class party as in China, certain areas of the economy are undoubtedly left in private hands at the initial stage⁷⁵. The case of Bangladesh is different in this that in a socialist country the working class in alliance with the peasantry controls the State and in a capitalist country the State is controlled by those who own, control and manage the means of production and dictate the entire system of the economy. The working class had no grip over the State machinery. This gives rise to a situation where political bosses, bureaucrats and technocrats dominate in the affairs of

74 Sadzikowski, *Public Sector*, *op. cit.*

75 A gradual process of nationalisation was to be brought about through three stages of utilisation, restriction and transformation. Breth, *China*, *op. cit.* pp. 25-9.

the economy. It seems that the only thing which could be equated with socialism was nationalisation of certain economic activities, without a clear perception of the responsibilities that entailed and the institutional and policy supports it required. Instead of democratisation both economic and political power seemed to concentrate in the hands of a few politicians or the military rulers, civil bureaucracy, technocracy or professional management. In Bangladesh, nationalisation seemed to have turned into State Capitalism which drifted to both parliamentary and military dictatorship. The government as the owner and operator of the public sector industries was acting almost like a capitalist in whom all the authority of ownership and management was vested. Nationalisation, working within a market economy⁷⁶ could not eliminate the inherent flaws of capitalism nor could it ensure removal of inequalities. A democratic ideal of nationalisation could check the lop sided development and concentration of wealth. Instead the Bangladesh variety of nationalisation depended on foreign induced industrial expansion resulting in heightened social inequalities and development on distorted priorities, long term decapitalisation of the economy and failure to absorb the vast multitude of unemployed and underemployed. External debts and influences of the donor agencies and donor countries even tended to encroach upon the sovereignty of the State.

76 See Pasquale Saraceno "Public Enterprise in the Market Economy" in Albert Winsemuis & John A. Panous, ed. *Methods of Industrial Development*, (Paris: Organisation for Economic Co-operation & Development, 1962) pp. 237-249; also Maurice Konopnicki, "Public Enterprises in a Market Economy", *Annals of Public & Co-operative Economy*, Vol. 48. (1977), pp.137-8 ; Maurice Konopnicki, "Interference by the Private Sector in Enterprises of Communal Interest in the Performance of their Economic, Social and Ecological Functions", *Annals of Public & Co-operative Economy*, Vol. 48 (1977), pp. 135-6.

Perception, Stance and Reality

In choosing a model of industrialisation, developing nations like Bangladesh are faced with a choice amongst

- (i) a reliance on private enterprise with minimum State intervention, planning by inducement rather than by command, private agricultural production and market economy;
- (ii) a reliance on publicly owned enterprises with command planning, public ownership of the means of production and foreign trade monopoly;
- (iii) a combination of the features of both the models.⁷⁷

Criticism of capitalist industrialisation consisted in the arguments that it would give rise to concentration of economic power in a few private hands and that the interests of the consumers and workers would be sacrificed. Capitalism also reflected, it was pointed out, an irresponsibility of the people who controlled the decision making power by virtue of their economic power. The lack of responsibility became manifest in that the holders of power remained inadequately accountable to the community. Economic activities at their behest led to waste, insecurity, inefficiency and injustices and were harmful to the community. It was argued that a substantial public intervention, control and ownership was required to remove the major evils of capitalism and to ensure full employment, high productivity and social justice. Nationalisation, therefore, sought to draw justification in terms of avoiding such concentration of economic power in private hands and ensuring that people - the consumers and workers - became the main beneficiary of the nationalised activity. Nationalisation was perceived as a necessary means to aid socialist industrialisation process. The goals of such an industrialisation

⁷⁷ Gregory, *Industrialization*, op. cit., pp. 157-8.

pattern should be

- (i) rapid growth of the total product and increase the standard of living;
- (ii) independence from capitalist markets;
- (iii) providing a sufficient base to support the industrialisation efforts.⁷⁸

It was stated that socialist pattern might commend itself if per capita income was low, population large, dependence on foreign aid excessive and sources of earning foreign exchange through exports limited⁷⁹.

Successful implementation of socialist industrial pattern would depend on fulfilment of scale requirements, central planning and collectivisation of agriculture, adequate natural endowments and political stability. Nationalisation as an instrument of socialist industrialisation process poses a challenge to capitalist industry. It seeks to democratise internal operation and external accountability of the nationalised industries. Nationalisation is expected to assist advance to greater equality, contribute to full employment and impart a greater sense of national responsibility to economic management, facilitate the development of industrial democracy and introduce a spirit of co-operation replacing hostility, greed, rivalry, friction and competition⁸⁰. It is hoped that nationalisation would achieve higher production greater efficiency and provide a shield against the monopoly power of capitalism.

The *raison d'être* of nationalisation is partly in a deliberate act of legislation and administrative measures based on certain political and legal theory and partly in the empirical reasons related to specific needs. The political, economic, industrial, administrative and technological elements are decisive factors but it is difficult to find a doctrinaire

78 *Ibid.*, p. 143.

79 *Ibid.*

80 Gaitskell, *Nationalisation*, *op. cit.*, p. 7.

approach. It is hard to draw an analogy in the conception of Bangladesh nationalisation either with the Soviet process or the West European countries as well as Indian nationalisation. In Bangladesh nationalised sector was an important part of the economic body but not the body itself as in the Soviet systems. Nor is it easy to say that in Bangladesh nationalised sector resulted only from the political ideology of the party. The problems of operating the nationalised industries, however, involve decisions of many dimensions and they could not be run as partisan ventures but in the interests of the nation as a whole. Nevertheless, increasingly the nationalised industries were expected to behave like a commercial concern. But in an economy predominantly capitalistic, where the main consumer of the products of the nationalised industries were private enterprises in commerce and industry a disproportionate pressure was exerted on the nationalised industries in order to keep the price level stable. As a result, sustained State interventions were made to hold down the prices even where this led to operational deficits for the nationalised industries. Compensation payment for nationalisation of enterprises, system of selling prices, distribution mechanism and capitalist profit making made transfer of resources from the nationalist industries to private sector possible. While the nationalised industries were criticised for having failed to generate a revenue and to contribute towards net national capital formation, their accounting losses contained subsidy to foreign importers in the form of deflated international price with a view to help earn foreign exchange for the country. The deficits also represented debt liabilities inherited by the nationalised enterprises from the pre-nationalisation era. Pricing mechanisms imposed on the nationalised industries

did not help reduce the distributive inequality in the community and instead contributed to push up the price level. At the same time government used the nationalised industries as instruments of wage restraints. Subordination of the nationalised industries in investment, price, profits, wages and so on was pervasive. Unearned income continued unabated, unemployment was hardly mitigated; co-operation did not take the place of competition, industrial democracy did not materialise. Displacement of some owners of certain enterprises by themselves did not alter the balance of social forces. The old class relationship remained unaffected as in the private enterprise firms. The public corporations could be manipulated so as to strengthen the middle class element in the society in its efforts to maintain and consolidate positions of power and privilege. The country did not make a move towards democratic socialism instead a managerial society emerged under the lever of nationalisation. Attitudes of the erstwhile property owning groups and their social attitudes were resurfacing among the new managerial class of the nationalised industries. The boards of membership running public corporations could hardly be distinguished from their counterparts during private enterprise days. There was a gradual transformation of the original conception of nationalisation which went almost unnoticed. Simultaneously the government failed to carry out structural reforms in the national planning mechanism. All these acted as reinforcements to the denationalisation campaign of the free enterprise lobby.

The unfavourable image of the nationalised industries was based on their allegedly poor performance. The major cause of disenchantment with nationalisation lay in the illusion - the myth that existed. Many expected that nationalisation would automatically

mean an improvement in the economy - standard of living and lower prices and abundance of goods. But circumstances both internal and external to the nationalised industries inhibited smooth operation and successful performance. The workers were made to believe that the industries on nationalisation belonged to them but were later disappointed to see that their conditions remained as before. The nationalised industries found it hard to meet at once their obligations to arrange for payment of fixed interest on the government capital, to provide expenditure for better living and working conditions for the workers and to supply goods to the consumers at cheaper prices. The workers and consumers alike felt that it was their right to expect these things which could not be claimed from private enterprise. Nor did the attitudes of the workers alter in respect of the nationalised industries after the change over to public ownership. Instead they continued to view the corporation as a sort of new boss.

The allegedly unsatisfactory performance of the nationalised industries resulted from factors, both man made and circumstantial. To begin with nationalisation was launched without an apparent long term strategy or well conceived plan. Ad-hoc measures were taken for controlling the operation of the enterprises. Technical issues involving determination of performance criteria, fixation of prices for the products of the enterprises, formulation of policies relating to accumulation of funds, understanding of the implications of nationalisation for economic planning and even the relative role of the nationalised, public and private sector could not be resolved. The key ideological issues concerning the role of incentives and method of developing social agents of production were not settled. A proper and satisfactory organisational framework for the management could not

be evolved. The relationship between labour and management outlining the code of conduct for them separately was not defined. The absence of proper autonomy at the layers of the nationalised industries and diffusion in the decision making process limited the operational efficiency. A critical shortage of managerial personnel, engineers, accountants, economic analysts, marketing specialists and skilled workers was compounded through induction of unqualified and inexperienced personnel through the influence of political elites. On the other hand, large scale destruction of the transportation system, smuggling, increasing layoffs and gradual loss of foreign markets added to the long list of problems. General economic management and inflation along with malpractices in the distribution system made things difficult. The sustained campaign against nationalised industries by the free enterprise lobby and even politicians sapped the morale and initiative of the management of the nationalised industries. Devoid of political support and subject to political interference and adverse publicity without the opportunity to put up arguments in defence caused immense harm. Inability of the government to firmly demarcate the boundaries of public and private sector introduced an element of transition which inhibited steps from being taken to improve the performance in the long run. While criticism about mismanagement, corruption, inefficiency and economic lapses were true the circumstances as above indicated that much of it was irrelevant in the context. It could not be said that nationalisation per se was wrong or a failure. The criticism only reflected that the governments failed to ensure efficient performance of the nationalised industries. Nationalisation after all, was a means and not an end in itself. Indeed ideological considerations do not appear as of primary importance in leading to nationalisation in

Bangladesh. The successive regimes found it expedient to remain vague and ambivalent regarding their ideological orientations. The quick shifts of policy emphases influenced the structure, management and performance of the nationalised industries. Moreover, social, economic and political conditions preceding and following Liberation had overwhelming effects on the nationalised industries which seemed to be really beyond their management. The lack of natural resources, limited market, international competition, inflation and moribund national economy would go much in explaining the state of the nationalised industries in Bangladesh rather than putting the blame on the management or on the adoption of nationalisation as an instrument of policy for industrial development.

Role of Nationalisation in Bangladesh

The need for a public sector is more pronounced in a subsistence economy. Various studies have brought out the existence of a positive relationship between backwardness of an economy and the pressure on its public sector⁸¹. In a polity having a history of colonial domination which had to remain content playing the second fiddle and as a hinterland to an imperialist country with the economy captive, economic independence becomes as much strategic as of political independence⁸². Dismantling of the colonial systems facilitated changes at accelerated rate. An increasing number of developing countries take the road, more

81 Brookins and Schachter, for example concluded that there was a direct relationship between poverty and pressure on the public sector in a country. See Oscar T. Brookins & Gustav Schachter, "The Role of the Public Sector in Industrial Investment of Developing Areas in Southern Europe", *Rivista Internazionale de Scienze Economiche Commerciali*, Vol. 19, 1970, pp. 1190-1207.

82 Dharam P. Ghai, "Concepts and Strategies of Economic Independence", *The Journal of Modern African Studies*, Vol. 11, 1973, pp. 21-42.

or less consistently to socio-economic transformation. Initially nationalisation of alien interests detrimental to the sovereignty and of strategic importance to the economy becomes a major instrument for creating and expanding the public sector. The public enterprises thus established have survived and multiplied even though there is a general apathy towards government being in business⁸³. The role of public enterprises would vary reflecting the political and socio-economic conditions that prevail⁸⁴. The political elites in power tend to extend its control to all levels of government and to all sectors of the economy in their efforts to consolidate their authority. Alien entrepreneurs, managers and technical personnel are replaced by local elements. Certain interest groups receive costly benefits ignoring the limitations of the public enterprises. Management of the public enterprises become highly politicised substantially contributing towards poor performance of the nationalised industries. Subsequently the same or a new group of political elites in order to preserve and strengthen its position, would attempt to reverse the degeneration of the national economy as a part of the general strategy. For this group policy decision to consolidate political strength and emphasis on immediate economic growth converge. The Awami League, thus sought to politicise nationalisation to serve its own narrow group interests and the military regime sought to broaden its popular base and tended to pursue a policy that gave more premium to the primacy

83 See for an example Leonor M. Magtolis, "Public Enterprise in the Philippines: Structure and Problems", *Philippines Journal of Public Administration*, Vol. 13, 4 October, 1969, pp. 416-23.

84 King, *Ideas and Institutions*, *op.cit.*

of economics. However, the general pattern of change in the interaction between politics and records of the nationalised enterprises indicate the existence of overlapping between political and economic strands. During the period preceding Liberation, elites with established commercial interests controlled the industries and ensured records of high profits. In the post-Liberation years the political elites jockeyed to consolidate their power base and employed the resources of the nationalised enterprises towards that end. Commercial performance was thus adversely affected. Undoubtedly, nationalisation offered ample opportunity to develop production and accumulate the national product but these opportunities could not materialise by themselves. It was vital to manage the public sector efficiently. But the efficiency depended on what group interests the government represented.⁸⁵

An essential precondition of efficient performance of the nationalised enterprises is the commitment of the ruling elites to the success of nationalisation. For this identification of objectives and criteria for performance must be clearly delineated by the ruling elites. Where nationalisation is conceived as a most crucial step towards changing the entire socio-economic system the ruling elites must take appropriate steps including central planning and simultaneous reforms in all modes of production, distribution and exchange. Where nationalisation is viewed as a policy instrument irrespective of ideological predilections the ruling elites must demonstrate their keenness to ensure efficiency and attainment of objectives with needed policy and infrastructural supports. It is the efficient and objective management technique rather than presence or absence of certain ideology

85 Rehman Sobhan, "Public Enterprises and the Nature of the State", *Development and Change*, Vol. 10, (1979), pp. 23-29.

that would in the long run affect the operation of an enterprise. An objective perception of the role of nationalisation would be facilitated if a comparative perspective is kept in mind. The various countries practicing nationalisation may be broadly divided in the following groups:

- (i) where public and private sector function together;
- (ii) where private sector dominates and public enterprise in an exception;
- (iii) where State assumes ownership and power to operate the entire economy;
- (iv) where management of the means of production is effected through democratic participation of the workers themselves instead of a State bureaucracy.

In the capitalist economies nationalisation was not aimed at restricting the operation of the private sector in spite of the slogans to the contrary. The aim was to strengthen the capitalist system and remove the bottlenecks of operation in the capitalistic economy.

This means that all that was disadvantageous to private enterprise was turned into an overall burden on the society⁸⁶. In a socialist economy nationalisation is adopted as a political philosophy instead of as expediency. The mainsprings of the economic activity of the nationalised enterprises is determined basically by the central plan as an expression of the society as a whole. The goal is to maintain full employment continuously, provide for a sustained rapid growth, uphold the dignity of labour and ensure equitable distribution of income. In a mixed economy however like the capitalistic economy the connections between nationalised sector and the private sector together pressurize the government to strengthen and stabilise a capitalistic economy. In a mixed economy, the crux of nationalisation seems to lie

86 Carey-Jones et al, *Public Enterprise*, op. cit., p. 22, Shanks, *Public Enterprise*, op. cit., p. 21; Jenkins, *Power*, op. cit., Chapter 4.

in demarcating the operational areas for the public and private sectors⁸⁷. If there is no doctrinaire predilections the growth of public enterprise can be a matter of necessity and there can be an integration of public and private economy. However, the political climate is a decisive factor about the relative place of the public and private sector in the economy.

The present role of nationalisation in the Third World countries like Bangladesh consists in the intervention of the public authorities in various key sectors of the economy in response to reactions against abuses of capitalist dominations which were detrimental to the interest of the national community. Nationalisation became a principal policy instrument for economic and social development. Nationalisation by helping to expand the public sector helps develop the infrastructure and the key and strategic sectors of the economy. Nationalisation facilitates the public sector assuming the commanding heights in the economy. The expanded public sector inclusive of the nationalised sector becomes the largest supplier of goods and services in the country. Nationalisation makes the entrepreneurial role of the government a stark reality. The nationalised sector renders direct financial assistance, technical know-how and research facilities. It acts as a catalyst and promotes the economy even as a large buyer of goods and services from both private and public sector. Nationalisation acts as an instrument of major provider of revenues for the economy and also a major earner of foreign exchange. Nationalisation is an instrument of management of the nation's resources. Nationalisation is responsible for a large public sector being a major source of employment. Nationalisation

⁸⁸ Arthur Salter, "The Crux of Nationalisation", *The Political Quarterly*, Vol. 21 (2), 1950 pp. 209-17.

helps diversifying the economic structure and results in a more balanced structure in industry through a wide range of activities such as petrochemicals, fertiliser, heavy machinery and so on. Ancillary private enterprises develop owing to the products made available in the nationalised industries. Nationalised sector does have a salutary effect on the private enterprise in providing better working conditions to workers. It builds up production capacity, technological know how, a cadre of scientists, engineers, chemists and professional managers. On the other hand some major deficiencies in the role of nationalisation industries are underutilisation of capacities, overstaffing, high costs lack of cost consciousness and somewhat inelastic cost structure. Industrial culture can not develop and civil service ethos thrives resulting in less motivated managers at various levels.

A new possibility of wider application of nationalisation has emerged from the world wide activities of the multi-national corporations⁸⁸. Restriction of capitalism within the national boundaries has resulted in the recourse to this system of "permissive internationalisation". Modern technological and scientific developments, new diversion of labour, and complex international system of trade, finance and exchange has made all nations virtually interdependent. Capitalist system for its survival from the onslaughts of nationalisation and stringent control of the nation states has tended to take refuge in multinational corporations. Public enterprises developed in a purely national context cannot possibly deal with such international capitalist

88 See Andre Heurtebise, "The Place of Public Enterprises in the Economy" *Annals of Public & Co-operative Economy*, Vol. 49, (1978), pp. 325-327. Also see Katzarov, *op. cit.*, pp. 369-373. Katzarov mentions the efforts in the midst of the Second World War of "internationalisation". The broad aims favoured the "socialisation" on an international basis of the world's inheritance of raw materials.

institutions. In the context of new internationalisation of trade, finance and exchange it might be necessary to have a fresh perception of nationalisation. The scope and aims of the nationalised enterprises may have to be extended and redefined vesting them with needed authority. It is argued that if capitalism could demonstrate to survive and expand through multinational ventures it should be possible for the nationalised industries to transcend the national frontiers when economics of their activities so demand and if political will is available⁸⁹. In the face of stiff competition from synthetic products and multinational enterprises espousing them it seems necessary to take a positive view about the jute sector in terms of technological innovations, diversification of products and international collaboration among the jute producing countries. While for survival of Bangladesh jute, whether in the public or private sector, such multinational cooperation⁹⁰ seems essential clearly this is beyond the capacity of the present day private sector in Bangladesh.

Finally, issue is not whether the nationalised sector would continue to exist or not in the developing circumstances of the resource starved and subsistence level existence of Bangladesh but how far it would play a more effective role in the economy which embraces the private sector as well. The public sector and within it the nationalised segment and also the private sector are all important component parts of the economy. The need is to appreciate the role of each of them and

89 Heurtebise, *op. cit.*

90 A proposal to set up an organisation of jute exporting countries to protect the interest of the jute growing nations was mooted in early 1974. Accordingly a Jute International under the auspices of the United Development Programme was to be formed on the lines of the Organisation of Petroleum Exporting countries. See *The Statesman Weekly*, 7 June 1980.

help them to supplement each other and flourish each other to the common benefit of all.

Postscript

Representative governmental institutions were restored and national elections in Bangladesh were held in February, 1979 - first time after having been under the military rule since August, 1975. A new political party named the Bangladesh Nationalist Party (hereafter BNP) led by General Ziaur Rahman, soldier-turned-politician formed the government. The question now arises: what is the future of the nationalisation programme and of the nationalised industries in Bangladesh under the new dispensation? Disinvestment programme of the military regime has already reduced the size of the nationalised industries and virtually nothing but the hard core nationalised enterprises i.e., the enterprises previously owned by the Bengalis, the enterprises in the jute and textile sectors which were left abandoned by the non-local owners and the enterprises set up in the public sector during the pre-nationalisation period, remained for further depletion of the nationalised industries. Would the government undertake such a complete reversal of the nationalisation policy of the Awami League? Or would the government attempt a further reduction of the nationalised industries through reprivatization of the jute and textile units?

The military regime under the leadership of General Ziaur Rahman initiated the disinvestment programme of a number of the nationalised enterprises. The implementation of the programme was not kept in abeyance although the economic planners formulating the TYP under the authority of the military rulers noted that certain major issues needed to be resolved before undertaking some far reaching policy measures.

It was pointed out that national consensus on major issues could emanate only from a political process and one such issue was the resolution of the "operational jurisdictions" of public, nationalised and private sector. It was hoped that the Second Five Year Plan of Bangladesh (SFYP) which was to be launched under the umbrella of a representative government on the basis of national elections would help to decide the issues. However, the military regime in the meantime completed the first phase of dismantling of the nationalised industries through disinvestment of mainly the abandoned units which were taken over in the nationalised sector. It seems that the unresolved issues relating to public and private sector in the perception of the military rulers was whether the hard core of the nationalised industries were to be denationalised or not.

In order to seek an answer to the question posed above, one needs to reflect upon the character of the BNP and its party leaders. The BNP was hastily established mainly with a view to provide General Ziaur Rahman with a political platform. It was a medley of assorted politicians from different existing parties who became disgruntled with their erstwhile comrades for one reason or other or those who had to redeem themselves from some previous stigma attached to them during the Liberation War and some military professional and bureaucrat aspirants for political foothold. The BNP was essentially dependent upon the personality of General Rahman just like the Awami League in its post-Liberation days depended on the charisma of Mujibur Rahman. Once installed into power criticism related to the subordination of the elected elements in the government to the President⁹¹. It was

91 Rashed Khan Menon, an opposition leader alleged: This Parliament is not sovereign". Datta-Ray in Calcutta Statesman wrote: The atmosphere (in the Parliament) is that of a school debating society with an
(Continued over)

held that the administration was carried out like an operational plan at General Headquarters of the Army⁹². Furthermore, the qualitative content of the legislators and personalities in various political parties went through a significant change in the process, emphasizing the continued and unabated presence of the military in politics and administration in Bangladesh even under an elected government. The dominance of the Army in Bangladesh politics on terms similar to those in Pakistan, Indonesia or Tanzania seems to be assured for quite some time⁹³. In spite of massive popular support⁹⁴ behind him General Ziaur Rahman himself was constantly under pressure from his army colleagues⁹⁵ which left no doubt where the locus of power and authority remained in spite of all the facades of democracy.

Under those constraints it was politically expedient for the BNP leadership, like the previous military rulers, to further its group interests through various means of patronage and judicious use of the spoils system. Further decimation of the nationalised industries would be a convenient means, like distribution of diplomatic

91 (Continued) indulgent President sometimes languidly watching from the gallery", *Bangladesh Identity*, Datta-Ray, *op. cit.* Professor Abu Mahmood of the University of Dacca, in an interview with the correspondent of a Dacca weekly branded the new parliament as a convenient instrument for "legitimisation of perpetual martial law". See *The New Nation*, 15 April 1979. Mr. Ataur Rahman Khan, a former chief minister and opposition leader in the parliament and author of a few books on Bangladesh politics told the New Nation correspondent that "the parliament is not effective, simply because it can not be so, under the present dispensation". See *The New Nation*, 29 July 1979.

92 Datta-Ray, *op. cit.*

93 Haque, *Bangladesh 1979*, *op. cit.*

94 General Ziaur Rahman secured 98.88% confidence vote in April 1977 referendum and 76.3% of the votes in the June 1978 presidential election.

95 Rashiduzzaman, *Bangladesh 1977*, *op. cit.* p. 131. The cabinet in post-election 1979 contained six retired army officers. There were reports of indiscipline in the Army and an abortive coup in April 1976, September 1977, October 1977 and October 1979 which indicated its politicisation, dissatisfaction and restive ambitions.

assignments, secondment of army personnel to civilian posts, re-employment of retired army personnel to civilian jobs or fostering business enterprises operated by some ex-defence personnel. It was, therefore, not in the group interests of the BNP elite that the public sector in general and the nationalised industries in particular should expand or at least continue to exist in the present form. The manifesto of the BNP did not contain a specific commitment towards nationalisation or the continued sustenance of the nationalised industries or an assertion of its important role in the economy although instances were not lacking for a categorical commitment towards nationalisation and the nationalised industries by some of the contending political parties in the 1979 elections⁹⁶.

However, in line with the manifesto and the group character of the BNP, the SFYP announced in May 1980 and launched in July same year failed to demarcate the operational areas of the public, nationalised and private sectors as before and instead remained enigmatic and reticent on the issues involved. The SFYP while maintaining that

public sector has come to play a dominant role in the economy of Bangladesh whose scope has been widened by nationalisation⁹⁷

also pointed out that

private sector has been historically dependent on support of the public sector⁹⁸.

96 The election manifesto of the United Peoples' Party, for example stated:

In the industrial field the nationalised industries shall be the principal sector and it shall play the dominant and regulatory role [translated from Bengali].

See United Peoples' Party, *Khashrha Ghoshanapatra O Karmasuchee* [in Bengali] (Draft Declarations and Manifesto) (Dacca: Madhumati Mudranalaya, n.d.).

97 *SFYP, op. cit.*, Chapter 1, p. 18.

98 *Ibid.*

Beyond this the SFYP did not make an effort to indicate detailed strategies for the nationalised industries during the course of the next five years as was done earlier in the FFYP. There were speculations in the national press that government might introduce a denationalisation bill⁹⁹ in the parliament which did not elicit any official response¹⁰⁰. Apparently the government further succumbed to international capital notably the World Bank and the Aid-Consortium for Bangladesh in favour of private investment particularly in the face of its heavy dependence on foreign aid and investment¹⁰¹. The post-1978 experience with nationalisation in Bangladesh also thus tends to support the evidence that lack of political commitment created an ambivalence in the ruling elite in Bangladesh which in turn affected the administration and performance of the nationalised industries even though objective conditions seemed suited to pursuance of such a nationalisation programme.

99 *The Holiday*, 3 June 1979.

100 *The New Nation*, 17 August 1980. The Finance Minister "categorically" stated at the post budget press conference that whether government would go for denationalisation depended on the public opinion, the parliamentary leaders and the "responsible media".

101 A World Bank report recommended that public enterprise making continual losses should be sold off.

APPENDICES

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APPENDIX - PART I (GENERAL)

LIST OF AUTONOMOUS BODIES IN BANGLADESH
(POST-LIBERATION)

<u>Sl. No.</u>	<u>Name of the Organisation</u>
A. <u>Productive Sector:</u>	
1	Bangladesh Jute Mills Corporation
2	Bangladesh Textile Mills Corporation
3	Bangladesh Sugar and Food Industries Corporation
4	Bangladesh Chemical Industries Corporation
5	Bangladesh Steel and Engineering Corporation
6	Petrobangla
7	Bangladesh Petroleum Corporation
8	Bangladesh Mineral Exploration and Development Corporation
9	Bangladesh Forest Industries Development Corporation
10	Bangladesh Freedom Fighters Welfare Trust
11	Bangladesh Small and Cottage Industries Corporation
B. <u>Commercial and Trading Sector:</u>	
12	Bangladesh Jute Trading Corporation
13	Bangladesh Jute Marketing Corporation
14	Bangladesh Jute Export Corporation
15	Bangladesh Consumers Supplies Corporation
16	Bangladesh Trading Corporation
17	Bangladesh Fisheries Development Corporation
18	Bangladesh Parjaton Corporation
C. <u>Transportation Sector:</u>	
19	Bangladesh Shipping Corporation
20	Bangladesh Inland Water Transport Corporation
21	Bangladesh Biman
22	Bangladesh Road Transport Corporation (Bus)
23	Bangladesh Road Transport Corporation (Truck)
D. <u>Banking and Financial Institutions:</u>	
24	Bangladesh Bank
25	Sonali Bank
26	Pubali Bank

(Continued over)

D. Banking and Financial Institutions (Continued)

- 27 Rupali Bank
- 28 Uttara Bank
- 29 Agrani Bank
- 30 Janata Bank
- 31 Bangladesh Krishi Bank
- 32 Bangladesh Shilpa Bank
- 33 Bangladesh Shilpa Rin Sangstha
- 34 Bangladesh House Building Finance Corporation
- 35 Investment Corporation of Bangladesh

E. Insurance Corporation:

- 36 Jiban Bima Corporation
- 37 Shadharan Bima Corporation

F. Developmental Organisation:

- 38 Bangladesh Agriculture Development Corporation
- 39 Bangladesh Ware Housing Corporation
- 40 Bangladesh Film Development Corporation
- 41 Bangladesh Inland Water Transport Authority
- 42 Chittagong Port Trust
- 43 Chittagong WASA
- 44 Chittagong Development Authority
- 45 Bangladesh Water Development Board
- 46 Bangladesh Power Development Board
- 47 Dacca WASA
- 48 Dacca Improvement Trust
- 49 Khulna Development Authority
- 50 Bangladesh Tea Board

G. Autonomous Bodies Dependent on Government Grants:

- 1 Atomic Energy Commission
- 2 Bangladesh Industrial and Scientific Research Council
- 3 Shilpa Kala Academy
- 4 Bangla Academy
- 5 Bangladesh Asiatic Society
- 6 National Book Centre
- 7 Islamic Foundation
- 8 Hemeopathic Medical Board

G. Autonomous Bodies Dependent on Government Grants (Continued)

- 9 Unani and Ayurvedic Medical Board
- 10 Bangladesh Medical Research Council
- 11 Bangladesh Pharmacy Council
- 12 College of Physican and Surgeons
- 13 Diabetic Association
- 14 Bangladesh Medical Council
- 15 BITAC, Dacca
- 16 Wakf Administration
- 17 Institute of Chartered Accountants
- 18 Rural Development Academy, Comilla
- 19 Bangladesh Jute Research Institute
- 20 BITAC, Chittagong
- 21 Bangladesh Standard Institution
- 22 Dacca Museum
- 23 (a) Dacca University
- (b) Rajshahi University
- (c) Mymensingh University
- (d) Engineering University
- (e) Chittagong University
- (f) Jahangir Nagar University
- 24 Inter University Board
- 25 Cadet Colleges
- 26 Girl's Guide Association
- 27 Boy Scout Association
- 28 Promotion of Fine Arts and Theatre
- 29 Women Association
- 30 Cadet Corps
- 31 National Sports Coaching
- 32 Sports Council
- 33 Residential Model School
- 34 Economic Association
- 35 Philosophical Congress
- 36 Work Camps Association
- 37 Folk Arts and Crafts Foundation
- 38 Sea Scout
- 39 Cultural Heritage Fund

G. Autonomous Bodies Dependent on Government Grants (Continued)

- 40 Science and Technology Museum
- 41 National Women Association
- 42 Red Cross Society
- 43 Public Orphanage
- 44 Management Development Centre
- 45 Women Rehabilitation and Development Foundation
- 46 Export Market Development Fund
- 47 University Grants Commission
- 48 Institute of Development Studies

Source: Ministry of Finance, *Budget Statements of Autonomous Bodies 1977-78*, (Dacca: Bangladesh Government Press, 1977), pp. 7-10.

INDUSTRIES RESERVED FOR THE PUBLIC SECTOR

1974

- 1 Arms and Ammunition and allied defence equipment
- 2 Atomic Energy
- 3 Jute industry (sacking, hessian and carpet backing)
- 4 Textiles (excluding handlooms and specialised textiles)
- 5 Sugar
- 6 Paper and Newsprint
- 7 Iron and Steel (excluding re-rolling mills)
- 8 Ship-building and Heavy engineering (including Machine Tools and assembly/manufacture of cars, buses, trucks, tractors and power tillers)
- 9 Heavy Electrical Industry
- 10 Minerals, Oil and Gas
- 11 Cement
- 12 Petro-chemicals (Fertilizers, PVC, Ethylene and Synthetic fibre)
- 13 Heavy and basic chemicals and basic pharmaceuticals
- 14 Air transport
- 15 Shipping (including coastal ships and tankers above 1000 DWT)
- 16 Telephone, telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)
- 17 Generation and distribution of electricity
- 18 Forest extraction (mechanised)

1977

- 1 Arms and ammunition and allied defence equipment
- 2 Atomic energy
- 3 Jute industry (sacking, hessian and carpet backing)
- 4 Textiles (excluding handlooms and specialised textiles)
- 5 Sugar
- 6 Air transport
- 7 Telephone, telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)
- 8 Generation and distribution of electricity

Source: *Revised Investment Policy, op. cit.*, p. 7, Department of Industries: *Guide to Investment in Bangladesh*, (Dacca: May, 1977) p. 21.

LIST OF SECTORS WHERE PRIVATE INVESTORS CAN SET UP
INDUSTRIES IN COLLABORATION WITH PUBLIC SECTOR

- 1 Paper and Newsprint
- 2 Iron and Steel (excluding re-rolling mills and Mini Billet Mills)
- 3 Ship building and Heavy engineering (including Machine Tools and assembly/manufacture of cars, buses, trucks, tractors and power tillers)
- 4 Heavy Electrical Industry
- 5 Minerals, Oil and Gas
- 6 Cement
- 7 Petro-chemicals (Fertilizers, PVC, Ethylene and Synthetic Fibre)
- 8 Heavy and basic chemicals and basic pharmaceuticals
- 9 Shipping (including coastal ships and tankers above 5000 DWT)
- 10 Forest extraction (mechanised)

Source: Industries, *Guide*, p. 40.

APPENDIX - PART II (STATISTICAL)

TABLE I

SOME INDICATORS OF THE BANGLADESH ECONOMY 1970-1980

	<u>1969-70</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1979-80</u>
1 Population (Million)	67.3	74.0	77.0	78.2	-	82.8	85.4	90.3
2 Gross Domestic Product (in Million Taka)	51830	45300	49606	50598	55503	56438	60890	67200
3 Per Capita GDP (in Taka)	770	612	644	647	-	682	712	745
4 Index of Agricultural Production (1972-73=100)	N.A.	100	114	106	118	113	125	-
5 Index of Industrial Production (1969-70=100)	100	-	90	86	87	97	106	108 (1978-79)
6 National Exports (in Million Taka)	1670	-	2983	3135	5551	6670	7406	12162
7 National Imports (in Million Taka)	1813	-	8320	10842	14703	13992	18216	39600
8 International Reserves (in Million Taka)	Nil in Dec. 1971	1253	912	3508	4318	4833	4048	-
9 Foreign Aid disbursed (in Million US dollars)	243 (1971-72)	558	480	919	813	502	796	-
10 Revenue Receipts of the Government of Bangladesh (in Million Taka)	-	2235	3939	6837	10284	9795	12974	18120

Table I (Continued)	<u>1969-70</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1979-80</u>
11 Revenue Expenditures of the Government of Bangladesh (in Million Taka)	-	2131	3462	5655	6360	7673	9406	11939
12 Development Expenditure in Public Sector (in Million Taka)	-	4626	4638	5250	9650	10057	12029	23299
13 Public Sector Expenditure in industries (in Million Taka)	-	342	525	650	1116	1430	1901	3627
14 Money Supply (in Million Taka)	3875 (Dec.1970)	6960	8168	8145	9011	10307	12567	17003 (March 1980)
15 Consumer Price Index Urban Middle Classes	100	181	251	407	380	382	441	557
16 Consumer Price Index Industrial Workers	100	205	286	419	380	366	431	525
17 Bank Advance (in Million Taka)	-	615	788	938	-	-	1490	1846 (in 1979)
18 Index of industrial Value-Added	100	81	95	86	94	100	-	-
19 Share of industrial sector toward GDP (in percentage)	8.2	7.3	7.6	7.4	7.6	8.2	8.4	8.7
20 Share of agricultural sector toward GDP (in percentage)	62.4	60.1	61.1	58.9	58.8	56.9	56.7	54.5

Sources: *Review, 1978; Survey, 1980; Year Book, 1979; Statistical, 1973, Statistical, 1978; IBRD, Current Trends; IBRD, Rural Economy; IBRD, Prospects.*

TABLE 2
SECTORAL CONTRIBUTIONS TOWARDS GROSS DOMESTIC PRODUCTS

		(in per cent)						
		<u>1969-70</u>	<u>1972-73</u>	<u>1974-75</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u>
1	Agriculture	62.42	60.08	58.98	56.98	56.77	55.57	54.58
2	Industry	8.25	7.28	7.38	8.23	8.43	8.86	8.71
3	Construction	4.58	3.18	3.47	4.08	4.37	4.97	5.53
4	Power and Gas	0.24	0.40	0.52	0.69	0.67	0.75	0.85
5	Transport	4.63	5.29	5.16	5.35	5.31	5.37	4.38
6	Trade	7.45	7.75	7.75	7.44	7.39	7.47	7.48
7	Housing	4.42	5.20	4.92	4.78	4.61	4.61	4.52
8	Public Administration	2.44	2.91	4.86	5.37	5.47	5.78	5.94
9	Banking and Insurance	0.50	0.72	0.68	0.76	0.77	0.80	0.82
10	Professional and other services	6.05	7.3	6.51	6.33	6.16	6.22	6.19
11	Gross Domestic Product	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: *Survey, 1980, op. cit.*, p. 241, Planning Commission.

TABLE 3

PRODUCTION OF MAJOR INDUSTRIAL ITEMS IN BANGLADESH

<u>Items</u>	<u>Unit</u>	<u>1969</u> <u>-70</u>	<u>1970</u> <u>-71</u>	<u>1971</u> <u>-72</u>	<u>1972</u> <u>-73</u>	<u>1973</u> <u>-74</u>	<u>1974</u> <u>-75</u>	<u>1975</u> <u>-76</u>	<u>1976</u> <u>-77</u>	<u>1977</u> <u>-78</u>	<u>1978</u> <u>-79</u>	<u>1979</u> <u>-80</u>
Jute Goods	000 tons	561	440	315	446	500	444	478	490	546	501	532
Cotton Cloth	million yards	59.9	52.7	23.4	58.4	78.7	86.0	76.0	69.0	100.0	88.4	96.9
Yarn	millions pounds	105.7	81.7	45.6	80.9	96.0	101.0	91.0	94.0	107.0	110.6	113.5
Sugar	000 tons	93	99	19	19	88	99	87	139	175	131	93
Paper	000 tons	31	32	20	23	24	25	18	24.2	28.7	32	30
Newsprint	000 tons	36	30	16	27	26	29	20	14.6	30.0	37	40
Fertilizer	000 tons	107	57	47	217	289	100	329	343	279	362	430
Cement	000 tons	53	66	23	32	54	143	159	308	339	320	339
Petroleum Products	000 tons	916	-	-	788	329	768	841	1059	970	N.A.	N.A.
Matches	million gross boxes	12.96	10.28	63.3	5.9	6.2	6.2	6.8	7.5	8.0	6.1	6.6
Cigarettes	billion sticks	17.8	15.0	5.2	10.8	11.9	10.4	12.0	11.6	12.7	N.A.	N.A.
Steel Ingot	000 tons	54	-	-	-	73	76	90	103	111	122	145
Tea	million tons	70	59	29	56	-	70.9	64.7	73.9	-	-	-
Natural Gas Exploration	million CPT	-	-	17729	24503	27124	17976	27357	32360	34294	-	-

Source: *Review 1978*, p. 202; *Survey 1980*, p. 251; *Statistical 1973*, pp. 72-3; *Statistical 1978*, pp. 186-7; *Year Book 1979*, p. 242, Ministry, *Nationalized Industries*, p. 36.

TABLE 4

VOLUME OF PRINCIPAL COMMODITIES EXPORTED FROM BANGLADESH

	<u>Commodities</u>	<u>Units</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u>	<u>1979-80</u> <u>Estimate</u>
1	Jute Manufactures	Thousand Ton	438	379	439	454	522	458	453
2	Raw Jute and Mesta	Million Bales	266	154	234	227	166	196	199
3	Tea	Million Pounds	47	52	49	64	63	60	55
4	Leather	Ton	1503	-	12722	4432	7816	27715	7000
5	Hides and skins	Ton	-	359	-	10734	4797	138	150
6	Fish	Ton	650	3200	3750	3500	3600	5805	7500
7	Newsprint	Ton	10587	8446	5010	7192	22165	20486	21000
8	Paper	Ton	1009	295	533	2276	3304	2167	5100
9	Hardboard	Ton	159	440	140	1577	854	1572	75
10	Spices	Ton	623	243	3349	2662	1307	1372	750
11	Bone	Ton	1621	1232	1691	1935	1868	910	2000
12	Raw Cotton	Ton	360	4214	1586	435	685	554	900
13	Rayon	Thousand Pounds	1359	175	568	1757	835	322	800
14	Naptha and Furance Oil	Thousand Ton	-	-	-	-	-	56	399

Source: Survey 1980, op. cit., p. 288.

TABLE 5
PRINCIPAL COMMODITIES EXPORTED FROM BANGLADESH
(In Million Taka)

<u>Period</u>	<u>Jute Goods</u>	<u>Raw Jute and Mesta</u>	<u>Tea</u>	<u>Leather, hides & skins</u>	<u>Fish and Fish Prep- arations</u>	<u>Naptha & Furnace Oil</u>	<u>Paper & News- print</u>	<u>Handi- crafts</u>	<u>Spices</u>	<u>Other</u>	<u>Total</u>
1973-74	1586	943	108	176	82	-	29	0.90	2.5	52	2983
1974-75	1858	758	162	190	59	35	29	4.00	0.9	36	3135
1975-76	2773	1634	238	504	176	58	23	9.6	30.0	113	5551
1976-77	2775	1840	494	862	278	222	32	14	20	130	6670
1977-78	3715	1454	679	680	291	175	120	26	23	223	7406
1978-79	4250	2179	621	1147	522	142	108	38	21	251	9282
1979-80	6029	2167	545	1220	730	1000	160	46	20	243	12162

Source: (1) Planning Commission (1979-80 provisional estimate)
(2) Bangladesh Bureau of Statistics
(3) Ministry and Corporation concerned
Survey 1980, op. cit., p. 284.

TABLE 6
NUMBER OF REGISTERED FACTORIES IN BANGLADESH
1969-70 to 1976-77

<u>Year</u>	<u>Number</u>
1969-70	3121
1970-71	3741
1971-72	3196
1972-73	3810
1973-74	3190
1974-75	2819
1975-76	2845
1976-77	2976

Source: *Yearbook 1979, op. cit.*, p. 251.

The figures for the handloom factory are not included in 1973-74 and onwards.

TABLE 7
OWNERSHIP OF MANUFACTURING INDUSTRIES IMMEDIATELY
BEFORE AND AFTER NATIONALISATION 1972

A : Before nationalisation:

Total number of enterprises in 1969-70 : 3121

(i)	Owned by EPIDC	53
(ii)	Owned by non-Bengalis	786
(iii)	Owned by private foreigners	9
(iv)	Owned by private Bengalis	2273

B : On nationalisation:

(i)	Units nationalised :	
	(a) EPIDC units	53
	(b) Units abandoned by non-locals	221
	(c) Units owned by the Bengalis	75
(ii)	Units under Bengali private ownership	2198
(iii)	Units under foreign participation	9
(iv)	Units taken over as abandoned units for disposal by sale or disinvestment	565

Source: Sobhan, *Nationalisation, op. cit.* Department of Industries, Government of Bangladesh.

TABLE 8

PROGRESS IN DISPOSAL OF ABANDONED AND TAKEN OVER INDUSTRIAL
UNITS BY THE GOVERNMENT AS UP TO SEPTEMBER, 1978

I	Number of units taken over by the government after Liberation	786	<u>786</u>
II	Number of units deleted from the list of the abandoned units:		
	(a) Transferred to sector corporations	221	
	(b) Transferred to the Ministry of Commerce as being trading units	14	
	(c) Returned to actual owners on submission and scrutiny	163	
	(d) Various reasons	77	<u>475</u>
III	Number of units that came within the purview of disinvestment by the Ministry of Industries/Department of Industries - units that were not placed in the nationalised sector:		
	(a) Units sold	211	
	(b) Sale pending due to litigation of prayer	50	
	(c) Units partly abandoned	9	
	(d) Units with foreign investment	3	
	(e) Units under process of disinvestment/allotment	7	
	(f) Units yet to be disinvested	31	<u>311</u>

Source: Department of Industries.

TABLE 9

DISINVESTMENT OF THE ENTERPRISES UNDER THE NATIONALISED
INDUSTRIES UNTIL MARCH, 1980

Total number of units in the nationalised industries as in July 1976: 371

<u>Corporation</u>	<u>Number of enterprises disinvested as on</u>		
	<u>June 30, 1976</u>	<u>June 30, 1978</u>	<u>June 30, 1980</u>
BJMC	nil	2	8
BTMC	nil	7	10
BSFIC	nil	12	41
BCIC	nil	19	30
BSEC	nil	13	17
BFIDC	nil	nil	4
Total	nil	53	110

Source: *Review 1978, op. cit., Survey 1980, op. cit., IBRD, Prospects, op. cit., BJMC, Reports, 1977 and 1978, Corporations.*

TABLE 10
CURRENT ASSETS OF THE NATIONALISED INDUSTRIES

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
BJMC	1705	2370	2423	2526	3263
BTMC	979	1463	1539	1499	2124
BSFIC	572	890	968	1213	1196
BCIC	700	1300	1800	2300	2800
BSEC	700	1300	1900	1700	<u>1400</u>
PB	100	160	250	250	380
BPC	969	1589	1629	1541	<u>1432</u>
BFIDC	153	180	218	235	337
Total	5878	9252	10727	11264	12932

TABLE 11
CURRENT LIABILITIES OF THE NATIONALISED INDUSTRIES
(in Million Taka)

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
BJMC	1604	2048	1872	2799	3095
BTMC	825	1335	1531	1626	2326
BSFIC	381	632	751	1005	948
BCIC	700	1600	2000	2100	2400
BSEC	500	1000	1400	1500	<u>1100</u>
PB	40	80	110	160	220
BPC	924	1646	1666	1503	<u>1435</u>
BFIDC	30	80	134	203	217
Total	5004	8421	9464	10896	11741

Sources for Tables 10 and 11: Head office of the respective corporations
BMEDC data not included. Figures underlined indicate they are
assumed on the basis of average of the corresponding data
available.

TABLE 12

FIXED ASSETS OF THE NATIONALISED ENTERPRISES IN THE
INDUSTRIAL SECTOR OF BANGLADESH, 1973-78
(in Million Taka, written down value)

<u>Corporation</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
BJMC	1624	1659	1965	1952	1700	1726
BTMC	428	428	456	606	611	682
BSFIC	278	272	384	403	407	417
BCIC	900	945	1715	1817	2017	1931
BSEC	805	816	829	835	804	971
PB	130	125	150	172	177	294
BPC	168+	173	241	191	148	150
BFIDC	-	61	87	183	338	672
Total	4333	4479	5827	6159	6202	6843

TABLE 13

EQUITY CAPITAL IN THE NATIONALISED INDUSTRIES
(in Million Taka)

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
BJMC	159	(211)	(388)	(1051)	(1144)
BTMC	226	229	226	210	108
BSFIC	118	139	196	215	221
BCIC	429	123	(487)	21	847
BSEC	33	36	41	44	39
PB	370	370	370	370	370
BPC	137	84	104	171	<u>127</u>
BFIDC	14	4	10	10	30
Total	1486	774	472	(10)	598

Sources for Tables 12 and 13: Respective Corporations.

TABLE 14
LONG TERM LOANS OF THE NATIONALISED INDUSTRIES
(in Million Taka)

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
BJMC	1762	2659	2984	2570	3158
BTMC	188	233	352	505	431
BSFIC	362	520	444	473	494
BCIC	940	1600	2300	2400	1600
BSEC	1100	1400	1700	1600	<u>1450</u>
PB	92	100	190	240	320
BPC	81	99	50	15	<u>61</u>
BFIDC	266	320	284	798	1013
Total	4791	6931	8304	8601	8527

Source: Head Offices of the respective corporations, Excluding BMEDC.

TABLE 15

PRODUCTION OF SOME COMMODITIES OF THE NATIONALISED INDUSTRIES

(In volume)

<u>Product</u>	<u>Unit</u>	<u>FY70</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>
<u>BJMC</u>								
Jute Goods	000, tons	561	446	500	444	478	490	547
<u>BTMC</u>								
Yarn	Million Lbs.	105	81	91	100	91	82	107
Cloth	Million Yds.	59	58	79	86	76	68	84
<u>BSFIC</u>								
Sugar	000, tons	89	19	89	98	87	139	175
Edible Oil	000, tons	-	-	-	16	19	25	26
Molasses	000, tons	-	-	-	53	39	58	82
Flour etc.	000, tons	-	-	-	29	31	27	28
Biscuits & Bread	000, tons	-	-	-	4	4	4	5
Ice Cream & Fruit Juices	000, litres	-	-	-	151	129	150	188
Cigarettes	Million St.	-	-	-	1709	2023	1009	730*
Shrimps & Froglegs	Million Lbs.	37	-	30	28	50	73	63
<u>BCIC</u>								
Urea	000, tons	97	210	275	69	282	286	212
L.S.P.	000, tons	-	-	-	32	40	48	38
A.S.	000, tons	-	6	10	5	6	9	10
Paper	000, tons	44	22	24	25	20	26	30
Newsprint	000, tons	36	27	27	29	20	17	32
Rayon	00, tons	-	19	21	16	11	14	13
Particle Board	00, tons	-	15	20	21	15	20	30
Caustic Soda	00, tons	33	8	38	14	19	21	26
Glass Sheet	000, sft.	-	725	587	574	559	581	755
D.D.T.	Tons	-	305	294	255	142	386	437*
P.V.C. Pipe	Tons	-	168	95	23	128	93	-
Soap	000, tons	8	8	9	6	5	8	11*

(Continued over)

Table 15 (Continued)

<u>Product</u>	<u>Unit</u>	<u>FY70</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>
<u>BCIC (Continued)</u>								
Cycle tyres & tubes	000, dozen	-	22	19	21	32	26	22*
Batteries	Gross	-	81	95	50	88	117	175*
Leather	000, pieces	-	1513	972	1138	339	617	-
Pulp	00, tons	-	-	-	-	26	35	95
<u>BSEC</u>								
Steel Ingots	000, tons	54	68	74	76	90	102	115
Billets	000, tons	50	48	46	57	71	71	-
Bars and Billets	000, tons	24	27	31	39	45	57	-
Rerolled Steel	100, tons	13	14	17	51	48	41	-
G.I. Pipes	100, tons	-	-	-	26	47	37	57
Diesel Engines	Number	1284	-	2253	940	5173	1118	24
Trucks, Buses & Cars	Number	455	-	1295	617	1015	1376	1500
Radio	Thousand	6	-	12	9	4	4	10
Bicycle	Thousand	7	-	8	17	17	18	21
<u>BFIDC</u>								
Rawing & Manufacture of furniture	000, cft	172	-	-	-	359	344	617
Tea chest	Thousand	-	-	-	-	122	156	250
Plywood	Thousand sft.	-	-	-	-	178	494	254
Febriflex	000, cft.	-	-	-	-	-	41	28
Dormat & Coir	000, sft.	-	-	-	-	-	24	44
Bobbin	000, units	-	-	-	-	-	37	960
Vencer	000, dft.	-	-	-	-	-	1260	1485
<u>BMDC</u>								
Cement	000, tons	64	-	53	143	159	308	339

Table 15 (Continued)

<u>Product</u>	<u>Unit</u>	<u>FY70</u>	<u>FY73</u>	<u>FY74</u>	<u>FY75</u>	<u>FY76</u>	<u>FY77</u>	<u>FY78</u>
<u>BPC</u>								
Petroleum Products	000, tons	916	341	329	768	841	1059	970
<u>Petrobangla</u>								
Natural Gas	Billncft.	-	27	27	18	27	32	34

Source: *Survey 1979, op. cit.*; *Review 1978, op. cit.*; IBRD, *Prospects Vol. II, op. cit.*; *Statistical 1978, op. cit.*

* Estimated Production

TABLE 16

VALUE OF SALES OF THE PRODUCTS OF THE NATIONALISED INDUSTRIES
DURING 1973-74 TO 1977-78

(in Million Taka at current prices)

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>Annual Average</u>
BJMC	1657	2055	2937	2938	4033	2724
BTMC	1294	1515	1820	1813	2000	1688
BSFIC	587	972	1324	1401	1793	1215
BCIC	761	879	1360	1849	1928	1355
BSEC	589	915	1216	1424	1581	1145
PB	60	80	180	220	200	148
BPC	360	350	510	560	535	463
BMEDC	36	98	109	211	232	137
BFIDC	43	52	76	78	77	63
Total	5387	6916	9532	10494	12379	8938

Source: Annual and Management Information System reports of different corporations and their other internal papers. Also internal papers with the Nationalised Industries Wing of the Ministry of Industries. Published sources include, *Review 1978*, *Survey 1979*, IBRD, *Prospects*, Vol. II, Data on BMEDC based on the value of production of cement given in *Review 1978*, p. 113, regarding PB, BPC and BFIDC are assumed (only for 1978 on the basis of the average figure of the preceding two years of the respective corporations).

TABLE 17

COMPOSITION OF THE COST OF SALES OF PRODUCTS OF THE NATIONALISED
INDUSTRIES (ONLY BJMC, BTMC AND BSFIC PRODUCT INCLUDED)
(in Million Taka correct to the nearest 100 million)

<u>Item</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>Average</u>
Materials	2000	2800	3300	4000	5200	3460
Wages and Salaries	800	1000	1000	1100	1300	1040
Administrative/ Sales overhead	600	800	1000	1100	1200	940
Financial Charges	200	200	200	200	300	220
Total	3600	4800	5500	6400	8000	5660

Source: Financial Directorate of the respective corporations (December, 1978).

TABLE 18

VALUE IN U.S. DOLLARS OF THE EXPORTS OF THE MAJOR PRODUCTS
OF THE NATIONALISED INDUSTRIES 1973-78
(in Million U.S. Dollars)

<u>Products</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>Average</u>
Jute Goods	192	213	177	172	200	191
Leather	15	25	30	38	35	29
Paper newsprint	3	5	1	1	10	4
Petroleum products	-	-	4	14	11	6
Total	210	243	212	225	256	230

Source: Export Promotion Bureau of the Government of Bangladesh,
Quoted in IBRD, *Prospects*, Vol. II, p. 205.

TABLE 19

CONTRIBUTION OF THE DIFFERENT CORPORATIONS IN THE NATIONALISED
INDUSTRIES TO THE GOVERNMENT EXCHEQUER IN THE FORM OF TAXES AND
DUTIES 1973-74 TO 1977-78
(in Million Taka)

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>Total</u>
BJMC	62	77	98	80	109	426
BTMC	242	401	392	323	490	1848
BSFIC	221	187	242	213	427	1290
BSEC	70	120	130	220	410	950
BCIC	180	179	235	404	531	1529
PB	17	18	68	89	105	297
BPC	360	277	286	461	<u>371</u>	1755
BMEDC	<u>100</u>	<u>100</u>	<u>100</u>	100	103	503
BFIDC	3	4	61	4	<u>14</u>	86
Total	1255	1363	1612	1894	2560	8684

Sources: Internal papers in the corporations, *Review 1978*, *op. cit.*,
Annual Reports of the corporations.

Figures underlined are assumed on the basis of the annual average of
the corresponding item.

TABLE 20
PROFITS/LOSSES OF THE NATIONALISED INDUSTRIES
SINCE INCEPTION AND UNTIL JUNE 30, 1978
(in Million Taka)

<u>Corporation</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>Total</u>
BJMC	-325	-332	-239	-285	-525	-636	-2342
BTMC	100	163	123	27	-132	120	401
BSFIC	-6	105	93	7	51	81	331
BCIC	-42	3	-327	-233	149	116	-334
BSEC	-19	48	121	118	76	119	463
PB	2	10	6	7	8	22	55
BPC	14	55	-40	59	50	17+	155
BMEDC	-	-	-	0.3	18	30	48
BFIDC	44	26	20	-12	-4	8	82
Grand Total	-232	78	-243	-312	-309	-123	-1141
Total excluding BJMC	93	400	-2	-27	216	513	1193

Source: IBRD , *Prospects*, Vol. I, *op. cit.*, p. 34; *Review 1978*, *op. cit.* Head offices of PB, BPC and BJMC.
Figures relating BMEDC for 1972-73 though 1974-75 could not be obtained up to December 1977.

TABLE 21
MANPOWER IN DIFFERENT CORPORATIONS AND ENTERPRISES
IN THE NATIONALISED INDUSTRIES

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
BJMC	213700	191100	197500	199600	206700
BTMC	68800	70600	68200	65500	65000
BSFIC	25700	23200	23500	31600	31300
BCIC	28600	28300	28300	25300	27100
BSEC	9700	<u>12900</u>	<u>12900</u>	14500	14400
PB	<u>2800</u>	<u>2800</u>	<u>2800</u>	<u>2800</u>	2800
BPC	2500	2700	2600	2800	2700
BMEDC	700	<u>1100</u>	<u>1100</u>	1100	1500
BFIDC	1100	<u>3000</u>	<u>3000</u>	4000	4000
Grand Total	353600	335700	339900	347200	355500

Sources: Annual Reports of BJMC 1975-76 through 1977-78; Annual Reports of BTMC 1973-74 through 1977-78, *Review 1978*, pp. 115, 119, 117 and 120. IBRD, *Prospects*, Vol. II, pp. 120 and 136; Muzaffar Ahmad, *Public Enterprise*, p. 43 and Head Offices of the corporations.

N.B. (a) Figures underlined in the table indicates assumed figures on the basis of annual average employment of the corresponding corporation and that the actual figures could not be had or compiled on the basis of the available information.

(b) BJMC data also include temporary/alternative labourers in the jute mills. Number of permanent workers and employees were however as under

Year	Number	Year	Number
1973-74	166800	1976-77	155500
1974-75	149300	1977-78	158000
1975-76	1522200		

TABLE 22

WAGES AND SALARIES PAID TO THE EMPLOYEES BY THE CORPORATIONS
AND THEIR ENTERPRISES IN THE NATIONALISED INDUSTRIES
(1973-74 through 1978-79 in million Taka)

<u>Corporation</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>	<u>1978-79</u> B
BJMC	654	623	650	687	929	1082
BTMC	221	271	264	298	316	454
BSFIC	52	70	68	85	95	97
BCIC	113	128	139	153	195	209
BSEC	57	50	63	75	116R	121
PB	5	6	12	15	17	N.A.
BPC	N.A.	N.A.	N.A.	32	35	37
BMEDC	N.A.	N.A.	8	8	11	13
BFIDC	N.A.	N.A.	12	15	13R	18
Grand Total	1102	1148	1216	1368	1727	2031

Sources: Respective corporations and Finance, *Autonomous Bodies*, *op. cit.* (respectively of 1975-76, 1976-77, 1977-78 and 1978-79).

N.B. R = Revised Budget

B = Budget Estimates

Aggregates are exclusive of figures not available with the author of this study.

TABLE 23

EMPLOYMENT AND AGGREGATE EMOLUMENTS IN THE DIFFERENT
SEGMENTS OF THE PUBLIC SECTOR IN BANGLADESH

<u>Sub-sector</u>	<u>Employment</u>	<u>Aggregate Emoluments</u> <u>in 1977-78</u>
Government	470540	3924
Nationalised Industries	355500	1727
Nationalised Banks) 19700	433
Nationalised Insurance)	52
Specialised Financial Institutions	3400	60
Bangladesh Railway	59345	102
Post Offices	25900	75
Telegraph and Telephone	15656	73

Source: *Year Book 1979*, *op. cit.*, pp. 331-3, 391, 394. Finance, *Autonomous Bodies*, *op. cit.* Corporation Offices.

TABLE 24

AGGREGATE OF EXPENDITURES (REVENUE AND DEVELOPMENT) OF THE
GOVERNMENT OF BANGLADESH AND THE CONSOLIDATED EXPENDITURES
OF THE NATIONALISED INDUSTRIES

<u>Year</u>	<u>Government</u>	<u>Nationalised Industries</u>
1975-76	16010	10745
1976-77	17750	13050
1977-78	21435	18681
1978-79	27316R	19959
Yearly Average	20627	15609

Sources: Finance, *Autonomous Bodies* (1975 through 1979), *op. cit.*

TABLE 25

ADVANCED BY THE BANKING SYSTEM TO THE NATIONALISED INDUSTRIES
(SECTOR CORPORATIONS) AS COMPARED TO THE OTHER
SEGMENTS OF THE PUBLIC SECTOR

Sub-sectors	1974	1975	1976
Government	938	380	398
Autonomous Bodies	153	186	154
Sector Corporations	3376	4758	5007
Others	992	707	848
Aggregate	5459	6031	6407

Source: *Statistical 1978*, *op. cit.*, p. 232.

TABLE 26

SUMMARY PROFILE OF THE NATIONALISED INDUSTRIES
(in Million Taka unless otherwise stated)

<u>Items</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1975-76</u>	<u>1976-77</u>	<u>1977-78</u>
Current Assets	5878	9252	10727	11264	12932
Current Liabilities	5004	8421	9464	10896	11741
Equity Capital	1486	774	472	(10)	598
Fixed Assets	4479	5827	6159	6202	6843
Long Term Loans	4791	6931	8304	8601	8527
Value of Sales	5387	6916	9532	10494	12379
Exports value (in million US dollars)	210	243	212	225	256
Contribution to government exchequer (Taxes and non-Tax Revenues)	1284	1462	1680	1928	2621
Profit/Losses	78	-243	-312	-309	-123
Wages/Salaries paid to the employees	1102	1148	1216	1368	1727
Employment in numbers	353600	335700	339900	347200	355500
Capital intensity (in Fixed Asset terms in Taka per man year employed)	12600	11400	18200	17800	19800

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Title marked * indicates "Restricted".
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1972	<i>The Bangladesh (Taking Over of Control and Management of Industrial and Commercial Concerns) Order, 1972.</i>
	<i>The Bangladesh Shipping Corporation Order, 1972.</i>
	<i>The Bangladesh Abandoned Property (Control, Management and Disposal) Order, 1972.</i>
	<i>The Bangladesh Insurance Corporation Order, 1972.</i>
	<i>The Bangladesh Industrial Enterprises (Nationalisation) Order, 1972.</i>
	<i>The Bangladesh Banks (Nationalisation) Order, 1972.</i>
	<i>The Bangladesh Inland Water Transport Corporation Order, 1972.</i>
	<i>The Bangladesh Consumer Supplies Corporation Order, 1972.</i>
	<i>The Bangladesh Jute Export Corporation Order, 1972.</i>
	<i>The Bangladesh Water and Power Development Boards (Order), 1972.</i>
	<i>The Trading Corporation of Bangladesh Order, 1972.</i>
	<i>The Bangladesh (Freedom Fighters) Welfare Trust Order, 1972.</i>
	<i>The Bangladesh Insurance (Nationalisation) Order, 1972.</i>
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	<i>The Bangladesh Mineral Exploration and Development Corporation Order, 1972.</i>
	<i>The Bangladesh Biman Order, 1972.</i>
	<i>The Bangladesh Bank Order, 1972.</i>
	<i>The Bangladesh Shilpa Rin Sangstha Order, 1972.</i>
	<i>The Bangladesh Industrial Development Corporation (Dissolution) Order, 1972.</i>
	<i>The Bangladesh Parjatan Corporation Order, 1972.</i>
	<i>The Bangladesh Insurance Corporation (Dissolution) Order, 1972.</i>
1973	<i>The Bangladesh House Building Finance Corporation, 1973.</i>
	<i>The Bangladesh Krishi Bank Order, 1973.</i>

<u>Year</u>	<u>Title</u>
1973	<i>The Bangladesh Atomic Energy Commission Order, 1973.</i> <i>The Insurance Corporations Act, Act No. VI, of 1973.</i> <i>The Bangladesh Fisheries Development Corporation Act, 1973.</i> <i>The Bangladesh Jute Corporation Act, 1973.</i> <i>The Bangladesh Cottage Industries Corporation Act, 1973.</i> <i>The Telegraph and Telephone Board Ordinance, 1975.</i>
1974	<i>The Bangladesh Petroleum Act, 1974.</i>
1976	<i>The Bangladesh Petroleum Corporation Order 1976, Presidential Order No. LXXXVIII of 1976.</i>
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1972	<i>The Bangladesh Industrial Enterprises (Nationalisation) (Amendment) Order, 1972.</i> <i>The Bangladesh Industrial Enterprises (Nationalisation) (Second Amendment) Order, 1972.</i> <i>The Bangladesh Industrial Enterprises (Nationalisation) (Third Amendment) Order, 1972.</i> <i>The Bangladesh Industrial Enterprises (Nationalisation) (Fourth Amendment) Order, 1972.</i> <i>The Bangladesh Industrial Enterprises (Nationalisation) (Fifth Amendment) Order, 1972.</i> <i>The Bangladesh Industrial Enterprises (Nationalisation) (Sixth Amendment) Order, 1972.</i> <i>The Bangladesh Industrial Enterprises (Nationalisation) (Seventh Amendment) Order, 1972.</i>
1973	<i>The Bangladesh Industrial Enterprises (Nationalisation) (Amendment) Ordinance, 1973.</i>
1974	<i>The Bangladesh Industrial Enterprises (Nationalisation) (Second Amendment) Ordinance, 1974.</i>
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